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# BUSINESS METHODS

FOR

INTERMEDIATE COMMERCE STUDENTS



BY

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## PREFACE

This small book on Business methods deals with the important aspects of business organization and management. Here in the major topics have been discussed in the form of questions arranged subject wise. It comprises the whole course prescribed for Intermediate Examination of Allahabad and Ajmer Rajasthan Boards. I have tried to give out a picture of the various forms of businesses, their management and office routine in a nutshell so that the student may have a ready and easy grasp of the subject.

My deepest thanks are due to Prof. Rup Ram Gupta M.A., B.Com. Head of the Commerce Department, St. John's College, Agra for his valuable suggestions and guidance and to Mr. T. N. Mathur M.A., B.Com. Lecturer in Commerce, S. R. K. College, Ferozabad. I shall feel highly rewarded if the book proves useful to those for whom it is intended.

Commerce Department

B. R. College, Agra

1st Dec, 1942

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### FOREIGN TRADE

#### (IMPORTING AND EXPORTING)

**Q 54** Give the Types of Business Houses engaged in the Export Trade of India and point out briefly the defects in each (1935 U P)

**Ans** Types of Business Houses engaged in the Export Trade of India

##### 1 Manufacturers —

These manufacturers obtain orders from customers abroad and despatch goods direct or through a forwarding agent. In India there are certain manufacturers like Cotton Mills of Bombay, Calcutta, Madras, Jute Mills of Bengal, Lalimh and Dhariwal Mills who receive orders direct from abroad.

**Defects** — These manufacturers when doing direct business cannot put in their best attention as they have to look towards the manufacturing of the things as well. Besides they cannot be expert in the art of selling and thus efficient business cannot be transacted. When they receive direct orders it generally causes delay in the despatch of goods which may lead to a consequent loss of business. Hence they have to engage the services of certain forwarding agents.

##### 2 Export firms and Merchants —

These merchants supply their customers abroad with goods which they themselves purchase from various manufacturers. These firms are a few in numbers and are usually of good standing.

**Defects** — These agents though aware of the various formalities of trade cannot be expected to be efficient so far as purchasing of goods is concerned. Besides they charge their own commission which enhances the price of the goods purchased.

### 3 Importer's Buying offices —

These are offices in the country of export which are maintained by foreign importers for the purpose of buying goods in accordance with the instructions sent to them by their principals. Their number is by far the largest. Some of them are Indians and others are foreign.

**Defects** — India being an agricultural country most of these are engaged in the export of raw materials and thus deprive the producer of his legitimate gain as the producer being ignorant is unaware of the market conditions in foreign countries. Besides they compete with traders who require goods for home consumption and in most cases outbid them.

## IMPORTING

**Q 55** Outline the procedure to be adopted by an Ajmer merchant who desires to import some goods from England (1937 R B)

**Ans** Indent — The first thing in the importing of goods is to place an indent or order for goods with a manufacturer in England or to an exporting firm there. Indent is an order containing full particulars of the goods ordered. In it are mentioned the quantity, quality and price of the goods ordered, the mode of packing and marking, insurance, port of destination and the method of payment.

Sometimes the indent may be placed through Indent Houses. These Indent Houses serve as an intermediary between buyers in one country and manufacturers in the other. These Indent Houses provide a useful link to those local merchants whose

requirements are small or whose credit is low and who are ignorant of the names and addresses of the goods they need. Such Indent Houses are largely found in port towns of Bombay, Karachi, Calcutta and Madras. They receive orders from various small dealers and place a large order to the manufacturer out of which they supply the need of the local dealers.

On receipt of the indent the agent will procure the goods from the manufacturer and will arrange for their shipment. On each package a distinction mark its number and port of destination will be stamped.

When the goods are ready for shipment the services of the forwarding agent will be utilized. The forwarding agent will go through various custom formalities. He will obtain three copies of Bill of Lading from the Shipping company and will effect insurance. Having secured the Bill of Lading which is a Contract of Affreightment and the insurance policy, the exporter will prepare the invoice. Three copies of the invoice will be prepared to be sent with three copies of B L. A certificate of Origin will be obtained which will help in the imposition of import duties. All these documents will be sent to the importer with a letter of advice. Generally these documents will be sent through an exchange bank with instructions that the documents are to be delivered to the importer either on acceptance of the draft or on payment of the bill.

**Securing Delivery of the Goods** —The importer on receipt of the letter of advice relating to the shipment will arrange to obtain these documents from the bank. The bank through which these documents have been sent, will deliver the documents to the importer either on acceptance or on payment of the documentary bill according to the instructions received from the exporter.

**Clearing the Goods** —The importer on receipt of these documents will require the services of the

Clearing agent and thus will endorse these documents in favour of the clearing agent at the port. The agent will then go through the following formalities

(1) **Endorsement of Delivery** —On arrival of the ship he will procure from the local agent of the shipping company an endorsement for delivery on the B L. The Bill of Lading will be endorsed after the agent of the shipping company has recovered freight if it was not paid by the exporter

(2) **Bill of Entry** —Then he will fill up a Customs Bill of Entry on the basis of which customs authorities will assess import duty. This form is prepared in triplicate and contains all information regarding the value quantity and description of the goods. The Bill of Entry forms are prepared in different inks one in black the other in blue and the third in violet

(3) **Bill of Sight** —When the importer or his agent has no definite information about the description quantity and value of the goods he has to fill up a statement called Bill of Sight. This will contain a declaration by the importer or his agent to the effect that he is not able to describe the goods fully. In such cases goods will be examined in the presence of a customs officer and then ascertained whether they are dutiable or not

(4) **Application to Import:—(Dock Chalan)** In addition to Bill of Entry, the agent has to fill another form called Application to Import. This is prepared in duplicate and is presented at the Landing and Shipping Office. In this office a charge is made on all goods imported in the country representing the payment for the services rendered by the Dock Authorities in connection with the landing of the goods

On payment of the landing charges one copy of the Application to Import is returned to the importer or his agent who then presents the same together with three copies of the Bill of Entry at the customs house. The customs house after carefully examining



the form will levy duties which the importer must pay before he can be allowed to take away the goods. If the goods are 'Free Goods' they will be allowed to pass without the payment of any duty.

**Survey and Warehousing** —When the goods are landed, the clearing agent will examine the goods and if he finds them to be damaged he will report in writing to the agent of the vessel who will then arrange for a survey.

If the importer is not in the immediate need of the goods imported by him and has no godown of his own, or has the intention of re-exporting them, he may keep them in a Bonded warehouse for which application is to be made to the customs authorities. Then the goods will be warehoused from where they cannot be removed until the duty is paid. These are special warehouses owned by the government. The goods warehoused lie under the supervision of customs authorities and rent is charged for the use of these warehouses. When the goods are warehoused, a receipt is issued known as Dock Warrant or Warehouse Certificate. It bears a stamp and can be transferred by endorsement and delivery.

**Despatch of the goods to the importer** —If the goods are not warehoused, delivery will be obtained and then they will be despatched to the importer at Ajmer. The agent will then send the Railway Receipt together with a copy of Bill of Entry, Application to Import and a bill of his own charges.

The importer on receipt of R/R will arrange to take delivery of the goods after paying freight and Octroi duty. The importer may then send a cheque to the clearing agent in settlement of his dues.

**Q 56** Describe noticing the Relevant Commercial Documents the importation of a dutiable commodity which passes through a Bonded Warehouse in the process.

(U P 1934)

Ans Refer to the answer to Question No 54.

Q 57. An Agra merchant desires to import some sewing machines from Germany? State the procedure he must follow in order to secure these goods

(U. P. 1933)

Ans See Question No. 55.

Q 58 The Bharat Engineering Company of Cawnpore have imported some machinery from a firm in England Explain the procedure that will have to be followed by the importing firm to take delivery of the goods

Ans. Refer to question No. 55

Q 59 A merchant in Delhi wishes to import certain goods from Germany Explain briefly the procedure that he should follow

(R. B 1938)

Ans Refer to question No 55.

Q 60 You have imported dutiable goods from Japan of the value of Rs 50000 The amount of duty to be paid is Rs 20000 You have not enough cash to honour the draft and to pay the duty. Clearly explain how would you complete the transactions and take delivery of the goods

(U P. 1936)

Ans When we do not have sufficient amount to honour the draft, we can approach an exchange bank and request the bank to honour the draft on our behalf on the security of the shipping documents which will be endorsed in favour of the bank. Certain amount may also be paid in cash by way of margin. The bank will then arrange to take delivery of the goods and to get it deposited in a Bonded warehouse. A bonded warehouse is a go-down maintained by the government where goods may be kept if the importer does not have sufficient money to pay the duty or if he does not want to pay the duties till the goods are sold. For this purpose

an application will be made to the customs authorities and the goods will be warehoused in the supervision of the customs officer

In the meantime money can be obtained by selling the goods on the basis of the receipt or the Bonded warehouse Certificate obtained from the customs authorities. This certificate can be transferred by endorsement and delivery and money may be obtained and transaction may be settled

**Q 61** A Delhi Merchant orders some goods from Liverpool. The goods are supplied to Bombay and the shipper draws on the Delhi Merchant at 30 d s D/A, through the National Bank of India Ltd. Delhi. Make out a list of the various charges which the Delhi Merchant will have to bear in addition to F O B Liverpool price before the goods are received by him. Also name the principal documents which will be used in the transaction.

**Ans.** Charges in addition to Liverpool F O B price :—

1. **Freight** —As the price is F O B (Free on Board) it does not include freight. Thus freight for the transport of the goods from Liverpool to Bombay will be paid to the shipping company.

2. **Marine Insurance** —as the goods are not insured by the exporter the Delhi merchant will effect insurance and will be required to pay insurance premium to the insurance company.

3. **Import duty** —If the goods are not free of duty, the importer will be required to pay import duty levied by customs authorities at the port.

4. **Dock charges** —this includes all the charges due to dock authorities and must be paid before the goods can be removed from the docks.

5. **Carriage** —from the dock to the railway station must also be paid.

6 **Commission** —of the clearing agent for clearing the goods will also be paid

7 **Railway freight** —from Bombay to Delhi will also be paid

8 **Detroit charges** —these are duties levied by municipalities on goods brought within the municipal area

9 **Carriage** —from Delhi Station to the importer's go-down

**Principal documents to be used—**

1 **Indent** :—It is an order which will be sent by the importer to the foreign exporter on the basis of which goods will be sent

• 2 **The Bill of Lading Insurance policy and the Export Invoice** will be obtained from the National Bank of India Delhi Branch on acceptance of the D/A bill

3 **Bill of Lading and the Insurance policy** will be sent to the clearing agent at Bombay duly endorsed in his favour. He will fill in a customs house form in triplicate. This form is known as **Bill of Entry**. This will contain all information regarding the quantity, value and description of the goods and will form the basis of import duty.

4 **Dock Chalan** or an **Application to Import** will be filled in which will form the basis for the payment of dock charges. **Bill of Lading** duly endorsed will be surrendered to the dock authorities.

5 If the goods are warehoused in a **Bonded warehouse** a **Dock Warrant** shall be issued by the customs authorities. It will form the receipt of the goods at bonded warehouse.

6 When goods will be sent from Bombay to Delhi by rail, a **Consignment Note** shall be filled in.

containing the particulars of the goods, name and address of both the consignor and consignee and whether freight is paid or is to be paid. If the goods are sent on owner's risk a Risk Note shall also be filled in,

7. Then the railway company will grant a Railway Receipt. It is an acknowledgement of the receipt of the goods by the company and lays down the conditions on which the railway authorities agree to carry the goods. Thus it is a contract of affreightment.

8. Octroi chalan — When octroi duty has been paid an octroi chalan shall be issued by the octroi authorities.

## EXPORTING

Q 62. Anant Ram of Ahmedabad Exports 60 Bales of cotton to a firm in Manchester. Describe briefly the procedure he will follow in exporting goods and enumerate the principal documents that will be used in the course of the transaction.

(1937 U P 1930 U P)

Receipt of Indent — After the settlement of the terms regarding the price etc. an indent will be received by Anant Ram. It is an order for the goods and contains all information regarding the quality and quantity of the goods, mode of packing and making time of shipment, price insurance and method of payment. The exporter is required to take proper care in complying with the terms mentioned in the indent.

Then the goods will be packed and marked according to the instructions given in the indent. Particular attention will be given to packing as shipping companies charge freight based not merely on the weight of the cargo but upon measurement and weight combined. Thus the maximum quantity of goods consistent with safety must be packed in the minimum of space.

**Sending the goods to the forwarding agent** —As the exporter resides in an inland town it will be convenient if the goods are sent to the forwarding agent. When a forwarding agent is appointed all the necessary formalities will be gone through by him. The Railway Receipt duly endorsed will be sent to the agent who will take delivery of the goods from the railway company.

**Securing Freight and Shipping Order** —When goods have been received by the forwarding agent arrangement will be made for their shipping through a steamship company. This is technically known as 'Securing Freight'. This is generally done through freight brokers. The steamship company after agreeing to carry the goods at a certain rate issues a Shipping Order. This is an order to the captain of the ship asking him to receive on board the goods from the party mentioned in the Shipping Order.

**Customs Formalities** —When the freight has been secured the agent will go through certain customs formalities. A Shipping Bill in triplicate will be filled in mentioning the quantity, description and value of the goods to be shipped, port of destination and so on. This form will be obtained from the customs house.

Another form to be obtained from the Landing and Shipping Dues Office known as Application to Export or Dock chalan will also be filled in duplicate. These two forms will be presented to the Shipping and Landing dues Office and the shipping dues representing the payment for the services of the dock authorities will be paid.

The three copies of Shipping Bill and one copy of Application to Export will be returned to the forwarding agent. Then these forms will be presented to the customs collector. Customs authorities will make necessary entries in the customs register.

**Bill of Lading** —The mate's receipt will be exchanged for Bill of Lading from the shipping company's office. It will be signed by the captain of the ship. Any remark appearing in mate's receipt will also appear in the Bill of Lading. B L forms the Contract of Affreightment and lay down the terms and conditions on which the shipping company agrees to carry the goods of the exporter. It is a document of title and can be transferred by endorsement and delivery.

**Insurance** —If the marine insurance is to be effected by the exporter, the goods will be insured by the forwarding agent against risks at sea before their despatch. He will obtain the insurance policy. Large exporters who have to ship several consignments during the year, generally take out an 'Open Marine Policy' and as consignment is being shipped, the exporter instructs the insurance company to cover the risk under that policy and issue the necessary certificates of insurance.

**Certificate of origin** :—Owing to special trade agreements between certain countries goods going from one friendly country to another generally receive preferential treatment in respect of import duties. Therefore it is to be proved that the goods are the genuine product of the exporting country on whose goods a preferential treatment has been claimed. To prove this a certificate of origin is needed, showing the name of the country in which the goods have been manufactured.

This certificate will therefore be obtained by the exporter or his agent to be sent to the importer so as to enable him to get an advantage of the preference in duties. In India preferential duties are levied on the goods manufactured in England and Colonies.

**Advice note and Invoice** :—The agent will prepare the advice note. He will also prepare a bill of

expenses and commission and will send it to the exporter together with various documents viz B/L, Marine Insurance Policy copy of the shipping bill, Application to Export and Certificate of origin

Then the exporter will prepare the Export Invoice giving the name of the vessel marks and number of cases together with the price of the goods. The question of charges incurred and the prices of the goods to be entered in the invoice depends chiefly upon the terms on which the goods have been sold. If the goods have been sold on C I F basis the invoice is not to contain any reference as to insurance, freight and other charges paid by the exporter. However if the goods are sold on F O B basis the invoice will contain not only a detail description of the goods and their value but also the charges in connection with freight insurance etc which will be shown separately. The invoice is made in triplicate.

**Securing payment** — Payment can be obtained in either of the following ways but the last two are more preferable and generally found in practice

1 The exporter may draw a Bill of Exchange attaching the necessary documents viz Invoice B/L Insurance Policy Certificate of origin etc and may send them through an exchange bank which may be asked to deliver the documents either on acceptance of the bill in which case the bill will be termed as D/A (documents against acceptance) or on payment when it will be termed as D/P (documents against payment)

Under this method the exporter has to wait for a longer time after shipping the goods as the bank will credit him only when it has realized the proceeds. Thus his capital is locked up for a long time.

2 In the second method the exporter discounts his bill with an exchange bank having a branch in the importer's country. For this purpose the exporter gives a letter of hypothecation which authorizes the



bank to sell the goods and reimburse herself in case the bill is dishonoured by the importer. If the sale realizes an amount less than the amount advanced the exporter holds himself responsible for the difference.

3 Here the exporter asks the importer to open a Letter of Credit in favour of the exporter. For this the importer approaches the banker in his own country and obtains a letter of credit in favour of the exporter. This Letter of Credit will make a specific provision that the credit is to be given only on the terms laid down in this letter and also for the necessary documents like B/L insurance policy etc.

Thus the exporter on the basis of this Letter of Credit can obtain immediate payment after handing over the various documents to the bank. It is this method that is most popular.

**Q 63** Ram Mohan & Co Bombay Exports a consignment of cotton to Edward & Co Liverpool. Give the procedure of Exportation and enumerate the documents used in the transaction (1938 U P)

**Ans** The same procedure as laid down in question number 62 will be followed. But here as Ram Mohan & Co reside in Bombay they may not appoint a forwarding agent and may perform all the work themselves. But in all probability they will also engage the services of the forwarding agent who is more in touch with the necessary formalities and customs authorities and may finish up work more easily and quickly. Besides Ram Mohan & Co will not employ the services of the railway company as the goods will be directly carted from the exporter's warehouse to the docks.

**Q 64** Define a bill of lading. What Functions does it fulfil? Describe the characteristics of a negotiable instrument in such a way as to make it clear how if at all a B/L falls short of being one (1937 U P, 1940 R B)

**Ans Definition of a bill of lading —** It is an acknowledgement of the goods received by the company to be carried to some foreign country. It forms the basis of contract between the shipping company and the consignor and lays down the terms on which the shipping company agrees to carry the goods. It gives the quality, quantity and the conditions of the goods, the marks and number of packages, the name of the shipper, the name of the consignee, the name of the ship and its master and also the freight and whether paid or to be paid. It is generally made out in sets of three, each of which requires a stamp. Two copies are usually sent to the consignee by different mails so that if the first is lost in transit the other may be delivered to him in time.

For further details refer to question number 62,

**Functions —**

1. It forms a receipt of goods by the shipping company.

2. It is a contract of affreightment and lays down the conditions on which the shipping company undertakes to carry the goods of the consignor to its port of destination.

3. It is also a document of title of the goods and thus entitles its holder the possession of the goods and can be transferred by endorsement and delivery.

4. As it is a document of title and is thus equal to the possession of the goods, it can be pledged as a security for any loan obtained by its holder.

**Characteristics of a negotiable instrument —**

Refer to question number 22 (a)

The main characteristic of a negotiable instrument is that the holder of it, if he has paid value for it and has received it in good faith, acquires a good title to it even though the title of the transferor is defective and thus can sue upon the instrument in his own name.

A Bill of Lading is frequently described as a negotiable instrument though it is not one in the strict sense of the term. Though there are many points of resemblance between a bill of lading and a negotiable instrument, e.g., it can be transferred by endorsement and delivery and the transferee can sue in his own name, but it differs from a *bill of exchange* on the point of negotiability because in case of bill of lading the holder cannot give a better title than he himself has i.e., the transferee cannot acquire a better title than the transferor and thus if the title of the transferor is defective, the title of the transferee shall also be defective, whereas in case of a negotiable instrument the holder-in due course who receives the same for value and in good faith receives the instrument free from all defects in the title of the transferor. Thus a bill of lading falls short of being a negotiable instrument and can be termed as quasi negotiable.

**Q 65** Write short notes on:—

**F O B :—**'Free on Board'—This term when added to the quotation means that the price includes all expenses from the seller's warehouse to the loading of the goods on board of the ship. It does not however, include freight from the port of the seller's country, to the port of the buyer's country.

**C I F :—**Cost, Insurance, and Freight—This quotation includes all expenses required to be incurred in the seller's country, including premium for insurance and freight from the port of the seller's country to the port of the buyer's country. Besides, it includes (a) Packing and making up charges (b) carriage to port (c) Export duty (d) Dock dues (e) Loading charges (f) Freight (g) Marine Insurance Premium.

**Certificate of origin**—Owing to special trade agreement with Dominions and India Great Britain gets favourable treatment in the imposition of import duties on manufactured goods. Thus duties are imposed according to favoured rates. To prove this

fact that the goods have been manufactured in Great Britain the customs authorities require a certificate to this effect. The certificate is set out in a Certificate of Origin. The certificate takes the form of a declaration by the exporter as to the accuracy of the invoice and must usually be sworn by him either before a magistrate or before a Chamber of Commerce, after which it is presented to the Consul of the importing country for legislation.

**Consular Invoice** —In many countries ad valorem import duties are charged and in order to avoid incorrect returns it is required that the importer shall present an invoice containing the F O B price and shipping charges duly certified as to correctness by the Consul of the importing country stationed in the exporting country. The invoice so certified is termed as Consular Invoice.

A special form is required and the exporter or his agent has to swear as to the accuracy of prices after which the Consul appends his signature in return for a prescribed fee. This is prepared in triplicate or more. One copy is retained by the Consul one being forwarded to the customs authorities in the port of destination and other handed over to the exporter who forwards it to the importer with other documents.

Where the law of the country requires the use of Consul Invoices they are compulsory, and the goods cannot be obtained by the importer without invoices of that type. In fact, in certain cases, a heavy fine is payable if such invoices are not available. Where there is no such legal requirements the use of such document would be a waste of time and the Consul would refuse to sign the invoice. However, their benefit in easing the task of examination of the goods at the port of destination cannot be overlooked as the customs authorities may rely on Consular invoice.

**Dead Freight** —In case of Charter party agreement where whole of the ship is hired for a particular

Then these two documents together with the following additional documents will be filed with the Registrar—

(i) A list of persons named as directors of the company

(ii) A written consent of the directors to act as such

(iii) Notice of situation, though it may be filed any time before commencement

(iv) A declaration of the secretary or director or officer of the company that the requirements of the law with regard to incorporation have been complied with

The Registrar will then after the payment of the registration charges, register the company in the book maintained by him for this purpose and issue a certificate called the 'Certificate of Incorporation'. The effect of the Certificate of Incorporation is to constitute the signatories of the M/A as a body corporate and the company comes into existence from this date as a full fledged, individual recognized by law and capable of exercising its functions. This certificate is a conclusive evidence of the registration of the company and of compliance with all the necessary formalities.

Now these promoters will issue a prospectus asking the public to subscribe for its shares. When applications have been received, allotment will be made as required by law. But before such a company i.e. a public company can start its business and exercise its borrowing powers it has to undergo certain legal formalities which a Private Limited company is not required to observe. Thus we pass to the third stage, viz. *Commencement Stage*.

**Commencement Stage**—A Public Limited company cannot commence business until it has complied with the following requirements of the act

(i) The minimum subscription must have been subscribed. Minimum subscription is such a sum as will ensure that the company can pay the debts incurred in connection with the formation and also preliminary expenses and will have sufficient amount left for its working capital.

(ii) Each director must have paid on each share that he is liable to pay for in cash the same amount as members of the public.

(iii) The Secretary or Director must file a statutory declaration that the aforesaid conditions have been complied with.

(iv) A prospectus or a statement in lieu of prospectus must have been filed with the Registrar.

(v) A list of allotment must have been filed.

If the Registrar is satisfied that these provisions have been complied with, he will issue a Certificate of Commencement entitling the company to commence business.

**Limited liability its meaning and how the public can know whether a company is limited or not —**

Limited liability means that the liability of each member is limited. In case of unlimited companies each member is personally liable to pay the whole of company's debts and obligations. Thus there is no limit to his liability. But in case of a limited company the liability is limited to a fixed sum. A company may be limited by shares or by guarantee—

(i) Limited by guarantee—in it each of the members guarantees to contribute to the company a definite amount in the event of its being wound up. Thus in such cases the liability is limited to the amount so guaranteed.

(ii) Limited by shares —In such cases the liability of a shareholder is limited to the face value of the share held by him. Thus if he has paid the full value of his shares, he is no more liable while if shares are

partly paid his liability is limited to the amount unpaid on such shares

**How can public know** — Law requires the limited company to give due publicity to its name. Every limited company is required to add the word limited after its name so that public may know it. Besides Memorandum of Association may be referred to or an extract may be obtained from the Register of companies kept by the Registrar.

**Q 13 Explain the distinctive features and the relative advantages of partnership and a joint stock company**

Deficiency of capital and lack of facilities for centralized management under partnership were responsible for the creation of joint stock companies.

**Distinctive features** — A joint stock company is a voluntary association of individuals for profit having a capital divided into transferable shares ownership of which is the condition of membership (Haney)

From this definition the following aspects are clear

- (i) The capital is divided in equal shares
- (ii) The shares are transferable
- (iii) Shares indicate the value of the holders in interest and the amount of share in the income of the business
- (iv) Shares also indicate the risk which a particular shareholder is to undertake

(1) Thus the first essential feature of a joint stock company is that its capital is divided into a number of shares which are transferable while in a partnership a partner cannot transfer his interest without the consent of all the partners.

(2) The management is delegated or centralized in the hands of a few persons known as directors who can bind the company for their acts while in partnership every partner is authorized to act in the management except the limited partner.

(3) The death of a shareholder does not affect the company, while the death of a partner may lead to dissolution

(4) Company has got a separate legal entity and can come into dealing with the members as well as the outside public while partnership has no separate existence besides its members

(Further points of difference may be noted in Q. No 14 on Pages 21—22)

### Relative advantages of Joint Stock Company over Partnership

1 Joint stock principle removes the limitation of raising large capital to which the partnership is liable as huge capital can be obtained through shares of small values and as these shares are transferable, it provides an extra attraction for the investors who can sell their holdings whenever they like

2 Control and management can be delegated in the hands of a few persons, thus those persons who have money but have no time to take an active part in the business, are also provided the opportunities for investment

3 The stability of organisation—Company has a perpetual succession as death or insolvency or bankruptcy of any shareholder does not affect the company. Thus its durability is a distinct advantage over partnership as continuity of policy can be achieved and plans requiring a long period can also be adopted

4 Concentration of management is another advantage over partnership as quick action in any matter is made possible without much disturbances

5 Publicity enforced by Law for a joint stock company provides another advantage over partnership. The public can know the strength of a company as every company is required to prepare every year a Balance Sheet and a Profit and Loss Account a copy of which is to be sent to the Registrar



6 Liability is limited in a joint stock company, which is also an advantage, as this provides an inducement to the public for investment thus thrift is encouraged and industrial and commercial development of the country is made possible

**Advantages of partnership over joint stock company —**

1 The principle of limited liability in a joint stock company reduces motivation and thus the directors may not manage the business with full interest as their liability is limited. Hence there is greater likelihood of waste and inefficiency

2 Facility of formation is great in partnership as partnership is not required to observe many legal formalities before it can come into existence while a joint stock company has to comply with a number of legal formalities

3 Company's powers are limited as they are defined by the objects clause of the Memorandum of Association while a partnership is free to choose any profitable business provided it is lawful

4 Secrecy can be observed to a greater extent in a partnership thus as profits are not disclosed to rival firms competition can be met much more easily

**Q 14 Clearly distinguish between a partnership and a joint stock company**

A joint stock company has been defined as an artificial person created by law with a perpetual succession and a common seal. This definition if studied in detail will provide us the main difference between a partnership and a joint stock company. The distinguishing features between the two can be studied under the following heads

1 **Legal Position** — It is clear from the above definition that a company is an artificial person having a legal entity of its own while a partnership has no

distinct entity of its own besides its members. Hence any change in the members of a joint stock company does not affect the existence of the company.

2 **Formation** — Partnership is governed by partnership deed which can be changed any time by the consent of all the partners. It has not to fulfil any legal formalities while a company is governed by its Memorandum of Association and also by the Indian Companies Act. It has to undergo very many legal formalities before it can come into existence and also after its incorporation.

3 **Number of members** — In partnership the number of members is limited to 20 in ordinary business and 10 for banking business. While in case of companies minimum number is seven for public companies and two for private companies but there is no maximum limit which is provided by the number of shares into which its capital is divided though for private companies the maximum number is limited to fifty exclusive of its present employees.

4 **Liability** The liability of partners is unlimited i.e. they are liable for all the debts of the firm except the Dormant partners while in case of limited companies the liability of a shareholder is limited to the face value of the shares purchased by him.

5 **Duties and Rights** — In partnership every partner has a right to take part in the management of partnership whereas a shareholder is deprived of this privilege as management in a joint stock company is delegated to a board of directors.

The rights and privileges of partners are governed by the partnership deed which can be changed with the consent of all the partners while the rights of shareholders are governed by the Memorandum of Association and Articles of Association the change of which is a difficult matter.

6 **Increase or reduction of Capital** — The capital of partnership can be changed at any time but the

capital of the company cannot be changed so easily, it can be changed only according to the provisions of the Indian Companies Act

**7 Accounts** — The accounts of a joint stock company must be audited and a copy of its Balance Sheet and Profit and Loss Account must be sent to the Registrar of Joint Stock Companies, but the audit for a partnership is not compulsory and its Balance Sheet and Profit and Loss Account need not be published

**8 Dissolution** — The partnership is dissolved by death or insolvency or insanity of a partner whereas the death or insolvency or insanity of a shareholder does not affect a company

**Q 15** What do you understand by (a) Memorandum of Association and (b) Articles of Association. Explain the difference between the two R B. 1935

**Memorandum of Association (M/A)**—It is a very important document in company management M/A and the A/A bind the company and also the members of the company They form the contract between the company and the members The Memorandum of Association is a charter of the company and can be called as a Statutory deed of Partnership It contains the fundamental conditions upon which the company is granted incorporation and it is through this document that the liability of a member is prescribed and limited

**Contents of M/A** —

**1 The name clause**—It lays down the name of the company under which the company is to be carried on The name of the company cannot be identical with the name of a company already in existence The word 'Limited' must be added to the name of the company

**2 Registered office clause**—In it the name of the province in which the registered office of the company is situated is mentioned The company can change its

registered office frequently within the same province but a notice of the change of office must be given to the Registrar

3 **Objects clause**—In it are mentioned the objects for which the company is formed. Thus this clause limits the scope of the company. This is the most important clause and must be drafted with the greatest care and caution. These objects must be lawful and must be stated fully and clearly. The powers of the company are also implied in the objects.

4 **Limited liability clause**—This appears only in case of companies either limited by shares or by guarantee. By this clause the liability of the shareholder is limited.

5 **Capital clause**—This gives the amount of share capital with which the company is proposed to be registered.

6 **Association clause**—Under it are given the full name and signatures of each signatory and also the number of shares held by them. It is in this clause that they declare themselves to incorporate into a body to carry on the business of the company.

Thus the M A is a very important document as it deals with the relation of the company with the outsiders. It must be signed by at least seven persons in case of public companies and by at least two in case of private companies.

### Articles of Association (A A) —

The articles are the bylaws for carrying out the objects given in the Memorandum of Association. They are the regulations governing the internal management of the company. It is not essential for Public Limited Companies to have their own Articles of Association in which case the model articles given in Table A of the Companies Act would apply. Articles like memorandum must be printed divided into paragraphs and numbered consecutively. They

deal with such matters as issue of shares, their allotment, powers of directors and managers, procedure to be followed in meetings, payment of interest and dividends etc

### Difference between Articles of Association and Memorandum of Association —

<i>Memorandum</i>	<i>Articles</i>
1 It is a charter of the company defining its field of activity	1 Articles are merely bylaws and is subordinate to M/A
2 It cannot go beyond the Act i.e cannot empower the company to do anything beyond the power of the Act	2 Articles are not only limited by the Act but are also limited by M/A
3 M/A is in the nature of a contract between the company and the outside world. Thus anybody dealing with the company is supposed to be conversant with the contents of M/A particularly the objects clause	3 While Articles are contracts between the company and members as members and not as outsiders. Thus it is not essential for the outsiders to know the contents of the Articles
4 M/A contains the objects of the company and therefore the powers are implied	4 A/A provide the regulations by which the objects are to be carried out
5 M/A cannot be altered except according to the provisions of law	5 Articles can be altered from time to time
6 The preparation of M/A is compulsory	6 Its preparation is not essential in which case Table A of the Companies Act would apply

**Q 16** How is a company, with limited liability registered? In what respects does a private company, differ from a partnership R B 1934

How a company is registered—See question No 12  
Pages 16 to 19

**Difference between a Private Company and a Partnership —**

A Private Company is one which by its Articles

- (i) limits the number of its members to 50 exclusive of its present employees
- (ii) restricts the transferability of shares
- (iii) prohibits any invitation to the public to subscribe for its shares

*Private Company*

- 1 The minimum and maximum number of members is 2 and 50 respectively
- 2 Liability of its members is limited
- 3 Formation requires the fulfilment of various legal formalities
- 4 Public is prohibited to subscribe for its shares and debentures

*Partnership*

- 1 The minimum and maximum is 2 and 20 respectively except in case of banking business where the maximum is 10
- 2 Liability of its members except of sleeping partners is unlimited
- 3 Its formation does not entail the fulfilment of legal formalities
- 4 Partners are free to take any new member into partnership and can raise loan from any body with the consent of all the partners

Q 17 Explain the particular feature and privileges of a Private Limited Company as compared with a Public Limited Company State the advantages of a private limited company over a partnership (U P 1937)

Private Limited Company—For definition please refer to Q No 16 Page 26

Special features and privileges of a Private Limited Company as compared to a Public Limited Company

(i) Private company cannot have more than 50 members while there is no limit to the members of a public company the limit in this case is provided by the number of shares into which its capital is divided

(ii) The minimum number of members in a private company is two while for a public company there must be at least seven members

(iii) It is not necessary for a private company to have directors while a public company must have at least three directors

(iv) The transferability of the shares of a private company is restricted while there is no such restriction in case of public companies

(v) The preparation of annual B/S and Profit and Loss a/c is compulsory in both the cases but a private company need not file a copy of these two documents with the Registrar Besides the audit of accounts for a private company is not legally necessary Thus a private company need not disclose its accounts to the public

(vi) At the time of formation a private company can commence business as soon as it receives a Certificate of Incorporation but a public company cannot commence business unless it receives a certificate of commencement

(vii) A public company is required to prepare an Annual Report of its working and file a copy of the same with the Registrar but it is not necessary for a private company

(viii) Besides certain restrictions are placed for a public company on the allotment of shares while a private company is free from any such restrictions

### **Advantages of Private Company over Partnership —**

A private company provides a middle course between partnership on the one hand and a public company on the other. It practically enjoys all the advantages of partnership and removes all the disadvantages of a public company. A private company as has been said in the first part of this question enjoys certain privileges over a public company and thus possesses certain advantages over both the forms of organizations

(1) As compared to partnership the liability of members in a private company is limited while the partners have unlimited liabilities

(2) The expansion of a partnership is limited as it cannot have more than 20 members while in a private company the number of members may exceed to 50. Thus a private company can secure a large amount of capital as compared to partnership

(3) A private company is free to have any new member while no member can be admitted into partnership without the consent of all the partners

(4) A private company has a separate legal entity while a partnership has no separate entity besides that of its members. Thus the death, insanity or bankruptcy of any member does not affect a private company but for a partnership any such things may mean the dissolution of the firm

Thus the main disadvantages of partnership viz (i) limitation of capital (ii) and limitation of managerial ability due to limitation of members to twenty are removed by a private company which achieves all the advantages of a joint stock company

**Q 18** Discuss the advantages and disadvantages of limited liability. How does a Private Company differ from a Public Company? (R B 1935)



Company Law which provides limited liability to its members is a recent advancement on the Law of partnership and is designed to promote trade, commerce and industries and encourage pursuits of art, science and useful objects without the persons concerned being involved in heavy and unforeseen liabilities. In brief *its advantages* may be given as follows—

(i) Large scale enterprise can be organised, as more capital can be attracted into industry due to limited liability by which men of means are made free from all the risks of the enterprise. They are made certain of their liabilities and are not required to share all the unforeseen losses.

(ii) As management is delegated into the hands of responsible persons known as directors, even persons who do not want to take part in the management are enabled to invest money.

(iii) Through limited liability and division of shares into small amounts, men of small means are also enabled to invest their money and thus investment habit and thrift are encouraged.

(iv) Hazardous occupations which may fetch huge profits can be undertaken as people do not fear because their liability is limited.

(v) It also inspires confidence being subject to law.

Thus it obviates the *main disadvantages* attaching to a partnership, provides a convenient and effective form for a working of a co-operative business enterprise and affords a safe mode of investment of their moneys to persons who have more capital than they themselves can profitably employ and at the same time do not either desire to engage themselves personally or do not want to undertake unlimited risks.

*Disadvantages*—But this principle of limited liability has also its darker side. With all the above advantages it has the following disadvantages—

(1) It reduces motivation and thus incentive to action. As the liability is limited the directors or the shareholders become careless and do not put in the full interest in the working of the company. Thus there is greater likelihood of waste and inefficiency. Thus the directors with limited liability may run the business into risks of extra ordinary type.

(2) Limited liability means large scale production and enterprise thus its failure would be a great social waste.

Difference between a private company and a public company — See Q. 17 Page 27 First Part

Q. 19 Compare the position of a partner (i) with that of the director of a company and (ii) with that of a shareholder of a limited company (R. B. 1936)

#### *Partner and a Director —*

A director is an agent of the shareholders appointed by them and thus acts on their behalf while a partner is not the agent of any partner but is a part owner of the business and works on his authority. His authority is not vested in him by somebody else. It is not essential for a partner to subscribe any capital in the business while a Director must have certain amount of shares. Thus a partner has full authority to control the business while a director's authority is limited by the Articles of Association or by Table A of the Indian Companies Act.

According to Indian Companies Act the directors are to retire after every three years in rotation while partner need not retire so long as he wants to be a partner in the business. Thus a partner acts for an indefinite time the directors are to retire after a fixed period of time after which they may be reelected.

Directors thus occupy a dual position. They are the trustees as well as the agents of the shareholders i.e. they manage the property of the company which is placed in their trust as agent of the shareholders.

while a partner is neither a trustee nor the agent, he is simply the proprietor of the business to the extent of his share

Any change of directors either by retirement, death or insanity does not affect the company, while any such things for a partner may mean dissolution of the firm

### *Partner and Shareholder Compared —*

Though both—partner and shareholder—occupy a position of proprietorship in their own business yet there is a considerable difference in their position. A partner, in the first instance, is liable for all the debts of the firm; his liability is unlimited except if he is a limited partner, while the liability of a shareholder is limited to the amount of the shares held by him. As the liability of a shareholder is limited, his privileges are also limited as he is not allowed to look to the management of the business to the extent he likes. But a partner on the other hand is free to look to all the details of the business. A partner, as he is taking an active part in the management of the business can exercise his authority any time he likes but a shareholder can exercise his authority only in annual general meetings.

A partner is expected to attend to the business diligently and with proper care and attention without expecting any reward or remuneration. But if a shareholder is to work, he can demand compensation or reward as happens in case of directors who are paid by the company for the work they put in.

A partner can bring about a change in the constitution of the business. He is at liberty to withdraw from the business. His death insanity or bankruptcy would also affect the business and may also mean dissolution of partnership, while a shareholder cannot bring about a change in the constitution of the company, which is not affected by the death or any such thing of a shareholder. On the otherhand a

shareholder is free to transfer his share to any other person but a partner cannot do it unless all other partners agree

A partner is allowed to draw money from the business in anticipation of profits while a shareholder can get profits only when the company declares any dividends. Then a shareholder cannot get the money once invested except at the time of winding up while a partner can withdraw his capital together with his share of profits any time he likes with the consent of all other partners

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## CHAPTER III

### NEGOTIABLE INSTRUMENTS

**Cheques, Bills of Exchange, Promissory Notes and Hundis**

**Q 20 Enumerate the various services which bankers render to mercantile community (U. P 1937)**

For the proper understanding of the functions of a bank it is essential that we should know the meaning of a bank. There is no legal definition of the term Bank. Prof Jevons has defined it as follows—  
Banking is the business of dealing in money and credit and in the remittance of money from place to place. A banker in short is the custodian of public money to whom the public looks for credit. He receives public money at a lower rate of interest and lends it at a higher rate and a greater part of the profit is derived from this source.

Besides the function of receiving deposit either on Deposit Current Savings or Home Safe account and thus taking care of the community's cash a banker performs various other services which may be summarized under the following heads —

(1) Lending of money or the granting of loans and overdrafts—thus financing the community in times of distress. The banker also finances the mercantile community by the process of discounting bills thus providing them ready cash.

This discounting of bills is a very important function that a banker performs. Credit instruments have certain period to run. But if the holder desires to have ready cash the banker generally comes to his

help He advances the face value of the document after making a deduction from the same according to his discount rate

(2) Agency services —

(i) Collection and payments of cheques, bills, Promissory notes interest and dividends insurance premiums etc

(ii) Purchasing and selling of shares, stocks, and bonds on behalf of their customers

(iii) Acting as trustee, executors, attorneys etc

(iv) Provision of safe custody of valuables

(v) Serving as correspondents, representatives or agents of their customers

(3) Miscellaneous —

(i) Making confidential enquiries about the financial stability and integrity of the would be customers and furnishing confidential informations about the financial stability of their own customers

(ii) Issuing of letters of credit, bank drafts etc

(iii) Financing the commerce of the country or dealing in foreign exchange

(iv) They encourage the use of credit instruments and thus provide for extra currency during busy seasons

(v) They equalize the rate of interest between different places and times by means of their credit policy

✓ Q. 21 In what circumstances will a bank refuse to pay a cheque drawn upon it by a customer?

(U. P. 1934, R. B. 1937, U. P. 1938)

Circumstances in which a banker will refuse the payment of the cheque—

(1) When the cheque is irregular, i. e.,

(i) when amount in words and figures differ,

(ii) when the drawer's signature differs from that given in the autograph book,

(iii) if the cheque is undated or postdated or it is a stale cheque,

(iv) when the cheque is incomplete in any other respect;

(v) when material alterations have not been initialled,

(vi) when the cheque is mutilated.

(2) When the endorsement made on it is irregular.

(3) When there are not sufficient funds to the credit of the drawer and no overdraft has been secured

(4) When a crossed cheque is presented over the counter

(5) When the account is closed

(6) By the countermanding of payment by the customer, i.e., upon the receipt of customers' instructions not to honour cheques

(7) Upon receipt of a notice of customer's death

(8) When the banker learns of the insolvency of the customer

(9) When he learns of the insanity of the customer.

(10) *Guarnishee order*—It is an injunction order issued by a court of Law attaching the funds of the customer in the custody of the banker and requiring him not to honour any cheque drawn by him

(11) On receipt by the banker of notice of assignment by the customer of the credit balance of his account

(12) On knowledge of any defect in the title of the party presenting the cheque.

✓ Q 22 (a) What do you understand by a negotiable Instrument?

(b) What is meant by endorsing a cheque? When and how should cheque be endorsed? State different kinds of endorsements (U. P. 1941)

**Ans. (a) Meaning of Negotiable Instrument —**

A Negotiable Instrument according to Negotiable Instruments Act has been defined 'a promissory note, bill of exchange or cheque payable either to order or to bearer'. This definition does not clarify the characteristics of a negotiable instrument but its characteristics are implied in the meaning of P N, B E and cheque. Mr J Willis defines a negotiable instrument as 'one, the property in which is acquired by any one who takes it bonafide and for value notwithstanding any defect in the title of the person from whom he took it'.

Thus from this definition it is clear that

(a) the property in a negotiable instrument passes merely by delivery or by delivery and endorsement

(b) if the holder of such an instrument receives it for value he is not affected by the title of the transferor; i.e., unlike the transfer of any commodity, the transfer of a negotiable instrument confers a full right of the instrument to the transferee even though the transferor may not have a good title to the instrument

(c) as such the holder of such an instrument can sue upon the instrument in his own name

Besides the three documents viz P N, cheques and B E which are recognized as Negotiable instruments by Law, there are certain other documents which are recognized by mercantile usage as negotiable instruments. These documents are hundis, B L, dock-warrant, delivery orders, share certificates etc

**Endorsements —**

**Meaning —**It has been defined as 'when the maker or holder of a negotiable instrument signs the same, otherwise than as such maker for the purpose of negotiation on the back or face thereof or on the slip of paper annexed thereto he is said to endorse the same and is called the 'endorser'.

Endorsement is thus the act of signing one's name on the back or face of a negotiable instrument or on



any slip attached thereto with the intention of transferring the property in it to another person and deliver it to him

Mere signing *one's* name without any intention of transfer and delivery would not constitute an endorsement *e g*, if a principal signs a document and delivers it to his agent for safe custody it is not an endorsement

When and how shou'd cheque be endorsed —

The cheque is to be endorsed when the holder wants to transfer the property of the cheque to some third party. But no endorsement would be needed if the cheque is a bearer one while an order cheque needs an endorsement before its property can be transferred.

The usual form of making an endorsement is signing the cheque and giving the date. But here care must be taken that the same spellings be given in the endorsement as are given by the drawer in the body of the cheque even though the endorser signs it otherwise *e g*

A cheque payable to Mr Ajj Khan should be endorsed as—Pay to Mr Murlimanohar Gupta or order  
Ajj Khan

If Ajj Khan signs his name as Aziz Khan then he should first mention the same spellings as given by the drawer and then may write his name correctly as follows —

Pay to Mr Murlimanohar Gupta or order  
Ajj Khan,  
Aziz Khan

When signing his name the endorser should not add any title like Mr Pandit Lala Babu etc. *i e*,

Ajj Khan when endorsing will not sign as  
Mr Ajj Khan

Various kinds of endorsements —

(1) Blank endorsement — When the endorser merely signs his name on the instrument and does

not give the name of any specified person in whose favour the endorsement is made, it is termed as Blank endorsement

Such an endorsement makes the cheque payable to bearer and the instrument thus endorsed can be negotiated by mere delivery ;

(2) **Special or Full endorsement**—When the endorser also adds the name of the person to whom or to whose order the cheque is made payable, it will be termed as full endorsement *e g*,

Pay to Mr Johan Smith or order

(Sd) Mustaq Hussain

(3) **Partial Endorsement** when only a part of the amount of the instrument is transferred But such an endorsement would not mean the proper negotiation of the instrument but it simply authorizes the endorsee to receive the payment of the amount so specified Such endorsement can be treated as invalid as the law lays down that an endorsement must relate to the whole instrument

(4) **Restrictive Endorsement** is one which restricts or limits or prohibits the further negotiation of the cheque *e g*

(i) Pay to Prabhat Kumar only

(ii) Pay to Prabhat Kumar for my use

Thus Prabhat Kumar cannot further negotiate it

(5) **Sans Recourse endorsement** is one where the endorser makes it clear that the endorsee or the subsequent holders should not look to him for payment in case the cheque or the bill is dishonoured *e g* if A endorses a bill Sans Recourse to B and if B agrees to take it with such an endorsement he takes it with the understanding that in case the Bill is not paid B, cannot sue A Such endorsements are generally made by agents who sign on behalf of their principals

(6) **Facultative endorsement** is one in which the endorser waives his right to get a notice of dishonour

to which he is entitled in case the cheque or the bill is dishonoured. Thus by this endorsement the endorser saves himself from the contingent liability. It is generally made as follows —

Pay to Prabhat Kumar, notice of dishonour waived

(7) Conditional endorsement is one when certain condition is attached with the endorsement e.g. pay to X if he returns from England within a year or pay to X upon his attaining majority. Thus in such cases payment will be made only when the specified condition is fulfilled. Instruments with conditional endorsement may be treated as dishonoured.

Q 23 Explain (a) Blank endorsement, (b) Special Endorsement (c) Restrictive endorsement  
(R B 1934)

Ans — For the answer to this question refer to Q No, 22

Q 24 How should cheques payable to the following persons be endorsed?

(1) The manager of Modern High School

(2) Mrs Ghosh

(3) Kamta Prasad and Sons

(4) The Ideal Leather Works, Ltd

(5) An illiterate

(U P 1933)

Ans (1) The manager Modern High School —  
Endorsement—Hyder Hussain,  
Manager,  
Modern High School

(2) Mrs Ghosh —  
Endorsement—Gita Ghosh,  
Wife of H. P. Ghosh.

(3) Kamta Prasad and Sons —  
Endorsement—Kamta Prasad and Sons,  
Kamta Prasad  
Proprietor

(4) The Ideal Leather Works Ltd —

Endorsement—

Per Pro The Ideal Leather Works Ltd

Jagdish Prasad,

Managing Director

(5) Illiterate Person VIZ (X)

Endorsement—X's thumb impression

Witness—K M Shah,

125 Esplanade,

Calcutta.

(Witness must be an independent party, known both to the illiterate party and the paying banker and must give his name, occupation and address clearly)

**Q 25** Give examples of correct endorsement when

(a) payee's name is Mis-spelt ,

(b) payee is a Limited Company ,

(c) the payee is a partnership firm

(d) the payee is illiterate

**Ans —** | Payee's name is mis spelt

Correct endorsement —Payee would write his name first as it has been spelt by the drawer in the body of the cheque and then may mention his name with correct spellings, *e, g*

Pay to Anwer Hussain Jafri

Anwer Hussain Jafri would endorse it as follows :

Pay to Ramanand or order

Anwer Hussain Jafri

Anwar Hussain Zafri

2 Payee is Limited Company —*e g* cheque drawn in favour of

Sharma Trading Co Ltd, would be endorsed—

Per Pro Sharma Trading Co Ltd

Jagdish Prasad,

Managing Director

3 Payee is a partnership firm — *e g* a cheque drawn in favour of Messrs Ramji Lal Baldeo Das would be endorsed as follows —

Ramji Lal Baldeo Das,  
Ramji Lal,  
Partner,

4 Illiterate Person, *e g* a cheque payable to Mohan Lal who is illiterate would be endorsed as follows —

Thumb impression of the illiterate person

Impression

Witness—Naunihal Singh,  
122 Rawatpara,  
Agra

Q 26 A draws a cheque in favour of B who endorses it in blank and sends to his agent C to pay it into his (B's) account at the bank. C writes above B's endorsement "Pay to C or order" and himself endorses it to D who pays C the face value of the cheque. D endorses it and sends it to his bank where it is collected and credited to his account. C absconds with the money. Can B recover the amount of the cheque from D? Would it make any difference if the cheque has been crossed and marked "Not negotiable"?

(U P 1930)

Can B recover the amount of the cheque from D —

A cheque is a negotiable instrument, and as such the property in it passes by delivery or by endorsement and delivery both. Thus B cannot recover the amount for two reasons —

(i) Cheque being endorsed in blank becomes a Bearer instrument and as such mere delivery gives proper right to cash the amount.

(ii) The characteristic of a negotiable instrument is that if a person receives it bona fide and for value, he acquires full title to it and it does not matter if the title of transferer is defective.

Here though the title of C (the transferer) is defective, yet D will acquire a good title to it as he has received it bona fide and for value. Thus B cannot recover the amount from D.

If the cheque was crossed and marked not Negotiable :—

If the cheque is marked 'Not Negotiable', it constitutes a note of warning to the transferee that he should be beware of the transferer as the transferee cannot acquire a better title than the transferer. A cheque marked Not Negotiable becomes an ordinary thing like a watch or a fountainpen and if any watch is stolen and then discovered the thief has to return it to its owner. Similarly if any cheque marked 'Not Negotiable' is stolen it must be returned to the rightful owner, if it is discovered.

In this example if the cheque was crossed and marked Not negotiable, D would be required to return back its amount to B as he got this cheque from C who had no title to it and thus D, though he has paid value for it cannot acquire a better title than C and as such B can recover the amount from D.

**Q 27** What is meant by a specially crossed cheque? Can a specially crossed cheque be crossed again and if so subject to what conditions? (U. P 1932)

**Ans** Specially crossed cheque —Such a cheque is one over which two transverse lines are drawn, with the name of some particular bank within the lines. The effect of such a crossing is that payment can be made through that particular bank only whose name is mentioned between the crossing.

**Re-crossing** —A specially crossed cheque can be crossed specially only in one circumstance viz the banker in whose favour the cheque is specially crossed can again cross it specially in favour of another banker for collection. This means that only for collection the cheque can be specially crossed again.

**Q. 28** What is the position of a person who takes a cheque crossed generally or specially and having in addition the words Not Negotiable? (U. P 1940)

**Ans** Crossing means drawing two transverse parallel lines on the face of a cheque with or without certain words. The effect of crossing is that the payment of the cheque cannot be made at the counter but will be made through a bank only. Crossing is made to make the cheque safe and ensure the payment being made to the rightful owner.

A generally crossed cheque is one which does not contain the name of a particular bank and thus its payment can be made through any bank.

The position of a holder of a generally crossed cheque is that he can get the payment of cheque through a bank and not directly. Thus he can get the payment by depositing the cheque into his account.

A specially crossed cheque is one which contains the name of a particular bank within the crossing. The effect of such a crossing is that payment can be made through that particular bank only.

The position of the holder of such a cheque is the same as in case of generally crossed cheque with the only difference that herein the payment can be obtained through that bank only. And as such if the holder does not have any account in that bank, he has to endorse the cheque in favour of somebody who has his account in that bank.

**Not Negotiable** —The title of a Not negotiable cheque depends upon the title of the person transferring it i.e. if the title of the person giving it is good then the title of the person holding it will be good, while if the title of the person giving the cheque is defective the title of the holder shall also be defective.

The addition of the words Not negotiable does not impair the transferability of the cheque but such cheques can be transferred to known parties only because in it the transferee cannot acquire a better title than the transferer. These words constitute a warning to the transferee to be beware of the transferer.

Such a cheque is like a stolen fountainpen or a watch the transferee of which does not get a better title than that of the thief. Thus the position of a person holding a Not negotiable crossed cheque is somewhat precarious because if it was found out that he received this cheque from a person whose title was defective or who was a thief this holder would be required to return this instrument to the true owner even though he might have paid value for it.

**Q 29 (a)** Explain in order of security four methods of altering 'bearer cheques' by the drawer or endorser on the face of the cheque, to guard against their being cashed by a wrong person.

**(b)** Explain the meaning of forged and mutilated cheque.

**(c)** Also explain the position of a banker if he pays

(i) a cheque on which drawer's signature is forged

(ii) a cheque on which endorser's signature is forged  
(R B, 1939)

**Ans** Four methods of altering bearer cheques in order of security to guard against their being cashed by a wrong person —

1 In the first instance the bearer cheque can be converted into an order one by striking out the word 'bearer' and writing in its place the word 'order'. This will make the cheque more secure as bank before paying will examine the identity of the person cashing it.

2 To give it further security the cheque may be crossed generally. This can be done by drawing two transverse parallel lines on the face of the cheque without any words or with some such words as & Co Account Payee only and so on. Now this cheque cannot be paid at the counter of the bank but it can be collected through a bank only and thus will make the cheque more secure as it is expected that the collecting banker will know the person on whose behalf the cheque is being collected.



3 To give still more security the cheque may be crossed Specially which is effected by writing the name of a particular bank within the crossing. The effect of such a crossing would be that such a cheque can be collected through that particular bank only whose name is mentioned within the crossings. This crossing is made in favour of that bank which keeps the account of the payee and is expected to know the payee and thus the chances of the payment being made to the wrong person are almost removed.

The cheque can be made still more safe by adding the words Not Negotiable within the crossings. In such a cheque the transferee cannot acquire a better title than the transferor and in case it is discovered that the cheque has been stolen the holder will be required to return the cheque to the rightful owner. Thus such cheques can be transferred to known parties only. Hence it is very difficult for a wrong person to obtain the payment of the cheque.

#### 4 Account Payee only —

Cheque may be crossed Account Payee only : i.e. the collecting banker is to cash the amount to be deposited in payee's account. This would make the cheque more safe.

#### (b) Forged Cheque —

A forged cheque is one on which the signature of the drawer is forged : i.e. where signature of the drawer has been made by some other person.

Mutilated cheque — A mutilated cheque is one which is torn into pieces. If a cheque is torn accidentally the person should write on the back of the pasted pieces. Accidentally torn and initial it. A mutilated cheque on which the figures cannot be read clearly will not be paid by the banker.

#### (c) Cheque on which drawer's signature is forged —

If a banker pays such a cheque he becomes liable as he is expected to know the signature of the drawer.

But if the banker exercises due care and diligence and is unable to detect the forgery and makes the payment in good faith he does not incur any personal liability

Then again if the drawer has contributed to the committing of forgery *e g* if he does not keep the cheque book under lock and key then also the banker is relieved from his liability

**Cheque on which the signature of any endorser is forged**

If the signature of the endorser is forged the bank is not liable as he is not expected to know the signature of any body except the drawer

**Q 30** Describe briefly the characteristics of a Negotiable Instrument What are the respective liabilities of (i) the acceptor, (ii) the drawer and (iii) the endorser of a B E (U P, 1939)

Ans —

Characteristics of a negotiable instrument—  
Refer to Q No 22 (a)

**Liability of the Acceptor —**

According to the Indian Negotiable Instrument Act In the absence of a contract to the contrary, the maker of a P N and the acceptor before maturity of a B E are bound to pay the amount thereof at maturity according to the apparent tenor

This means that when the bill is accepted it is the acceptor who is *primarily* liable on the bill And if the acceptor makes a default in payment he is bound to compensate any party to the bill for any loss or damage sustained by him

In an accommodation bill also the acceptor is liable to make the payment to a holder in due course or to any endorser He is not however liable to pay to the drawer in case the bill is drawn only for the accommodation of the drawer but if the bill is drawn for the accommodation of both the parties he is liable to the drawer to the extent of his share

### Liability of a Drawer .—

Drawer of a Bill has a contingent liability on the bill & *e* he is secondarily liable to pay the amount, which means that he will be required to pay the amount in case the bill is dishonoured by the acceptor. But he will be primarily liable on the bill so long as it is not accepted by the person on whom it is drawn. But if the bill is dishonoured by the acceptor and drawer is acquired to pay the amount, he (the drawer) will have recourse against the acceptor and thus can recover the amount through a law court.

But in case of an accomodation bill, which is drawn only for the accomodation of the drawee, the drawer will have no recourse against the drawee.

### Liabilities of an endorser —

The liability of an endorser is practically the same as that of the drawer of the bill. Just like the drawer an endorser has a contingent liability on the bill to the holder in due course or to subsequent endorsers and as such may be required to pay the amount in the event of the bill being dishonoured by the drawee or the acceptor. But a notice of dishonour must be given by the holder in due course or by any subsequent endorsers to the previous endorsers to make them liable, otherwise they will be relieved of their liabilities.

But if any endorser is required to pay the amount, he will have a right of recovery against any of the previous endorsers or against the drawer or the acceptor of the bill.

When the holder of an instrument cancels the name of the maker, acceptor or endorser with the intention of discharging him from liability on the instrument, he thereby not only discharges the person whose name he so cancels, but also those parties as well to whom the person is liable *e g* A is the holder of a bill and B, C, D, and E are its endorsers. A cancels the name of C with the intention of discharging

him from liability, then he not only discharges C but also D and E the parties to whom C is liable C, D and E are discharged from liability on the bill not only to A but to all other persons who derive their title from A

**Q 31** What are the respective liabilities of the drawer, acceptor and endorser of a B/E when the bill is accepted (a) for value and (b) for the accommodation of the drawer (1933 U P 1940 R B)

**Ans** Refer to question number 30

**Q 32** Describe the advantages of a B E to (i) debtors (ii) creditors

**Ans** Advantages to debtors —

(i) Bills of exchange provide an easy methods of payment and allow a period of credit to the debtor who can find time during which he can sell the goods realize the proceeds and have sufficient money out of which payment can be made

(ii) The debtor is provided a definite period of time during which he will not receive any reminder from his creditor

(iii) A B E also inspires confidence in his other customers on the basis of these bills they can grant him credit

(iv) It also provides a method of settling debts between foreign countries where payments are to be made in the currency of the country of the creditor

**Advantages to the creditors —**

(i) The creditor is enabled to sell his goods and increase his sales and is also assured of the payment of the goods as a B/E when accepted will form a legal acknowledgement of the debt and thus the debtor cannot deny it in a court of law

(ii) The creditor also need not lock his capital as he can negotiate it to some of his creditors in payment of his debts or can get cash by discounting it with his banker

(iii) Money can be collected from different places by means of Bills

(iv) Besides an accomodation bill meets the demand of money without actually lending money by one person to another. Such a bill can be drawn by one person upon another for their mutual accomodation and they can get the amount by discounting it with a banker

**Q 32** What is a negotiable instrument? Mention the various ways in which a B E may be endorsed and their effects (1936 R B)

**Ans** Please refer to question number 22

**Q 33.** Define a Negotiable Instrument Give standard form of a (i) cheque (ii) P/N (1938 R B)

**Ans** Definition of negotiable instrument—Refer to Question 22 (a)

Standard form of a Cheque —

No 221/7

ALLAHABAD,  
1st July 1941

IMPERIAL BANK OF INDIA,  
ALLAHABAD

Pay to S L Dwivedi Esq or bearer  
order

Rupees One hundred and five annas nine and pies  
six only

Rs 105 9 6

A J Smith

Promissory Note —

MORADABAD,  
17th Dec 1941

Stamp Rs 220

Two months after date I promise to pay to Mr M C Gupta, a sum of rupees two hundred and twenty only, Value received

4

Prabhakar Yajnik

**Q 34** What is a documentary B E ? Prepare an imaginary one. (R B 1937)

**Ans** A bill is called a documentary bill, when shipping documents viz Bill of Lading Insurance Policy, Letter of Hypothecation and a copy of an invoice is attached to it. The attachment of these documents implies that the above documents will not be handed over to the buyer or the importer unless he either accepts or pays the bill. Thus such a bill guarantees the acceptance or payment before the actual delivery of the goods.

Such a bill is generally drawn in foreign trade and may be either D A (documents against acceptance) or D/P (documents against payment). In the former case where draft is drawn against acceptance the documents of title which are attached to the bill will be handed over to the importer on his accepting the draft. But where the exporter allows no credit to the importer or he does not believe in the credit of the importer, the bill is drawn against payment (D/P), in which case the documents entitling the possession of the goods will be handed over to the importer by the bank through which they are sent only on his making the payment of the face value of the bill.

A Specimen —

N<sup>o</sup> 25/501

Bristol,  
23rd Nov 1941.

Exchange for £ 101-2-8

Stamp

Sixty days after sight pay this First of exchange (second and third of the same tenor and date unpaid) to the order of the National Bank of India Ltd., a sum of one hundred and one pounds two shillings and eight pence sterling, with interest added thereto at six per cent per annum from the date hereof to the approximate

due date of arrival of remittance at Bristol payable at the current drawing rate for the National Bank of India's drafts at sight on Bristol Value received against a consignment of books

Documents attached to be surrendered on payment

To Land Book Company

Messrs Murari Book Depot

Hospital Road

Agra

Q 35 Discuss the various types of Hundies and show how they differ from a bill of exchange

Ans Hundies are bills of exchange drawn in Indian languages and are very commonly used by Indian merchants. The purpose for which hundies are employed is usually different from that for which bills of exchange are used. The use of hundies was introduced at a time when there were no banks in this country and it has continued right up to the present day since many Indian merchants even now do not keep bank accounts at all. Hundies are governed by trade customs and usages. Like B/E hundies may be payable on demand or after a stated period of time.

Hundies are mainly of two kinds —

1 A DARSHNI HUNDI is one which is payable on demand its payee being entitled to receive the payment from the drawee immediately on presentation. A darshni hundi serves the purpose of a Demand Draft and requires no stamp. Such hundies are a means of remittance and are used in place of bank draft by those who have no banking accounts of their own. Such hundies can be had at a very low commission and sometimes the purchaser may be required to pay nothing by way of commission but may get the hundi by paying a lesser sum than the face value of the hundi.

Specimen of a Darshni Hundi —

Sidh Sri Cawnpore Subhasthane Shripatri bhai Babu

Lal Ram Chand jog lkhī Agra se Nahney Ram Shiam  
 Lal ki Ram Ram banchana Age hundi kinī ek ap  
 upar dia rupia 1000 ankre ek hazar ke nima panch  
 sau ke dune pure dena Yahan rakha bhai Allahabad  
 Bank, Ltd Agra wale ke miti Magsar sudi teej se  
 pauhunche dam dhanī jog bina jabta rupia bajar  
 chalal hundi ki riti thukane lagar dam chaulas kar  
 dena

Miti Magsar sudi teej sambat 1997

**Explanation** —The above hundi is drawn by Messrs Nahney Ram Shiam Lal of Agra on Messrs Babu Lal Ram Chand of Cawnpore for Rs 1000 payable to the Allahabad Bank Ltd, Agra on demand after Magsar sudi teej sambat 1997 on which date it is drawn

2 A MITI HUNDI is one which is payable after a stated number of days or months According to the trade usage the period for which miti hundies are drawn is different in different places It is usually 61 or 91 days corresponding nearly to two or three months Days of grace are not usually allowed on miti hundis Hundis are drawn on special stamped paper sold by the Government and an *adialrum* stamped paper is used

A miti hundi does not serve the same purpose as a bill of exchange It is not drawn by a creditor on the debtor in payment of an existing debt created by the sale of goods on credit It is mostly used as means of raising temporary loans for purposes of the business Indian merchants do not usually raise money by means of bank overdrafts cash credits or bank loans, for the simple reason that they do not keep bank accounts They obtain funds by means of miti hundi For example, if a certain trader whose credit in the market is good, stands in need of temporary funds for the use of his business he may draw a hundi upon himself for the amount required payable after a stated number of days and sell it through a hundi dalal to some other trader who has spare cash



for temporary investment. If the credit of the drawee is good his hundi will be easily sold. The purchaser of the hundi will of course pay its present worth i.e. the face value of the hundi less interest at a certain rate for the period of the hundi. On the due date the holder will present the hundi to the drawee and receive payment.

**Specimen of a Miti Hundi —**

<div style="border: 1px solid black; padding: 5px; display: inline-block;"> Stamp 4 As </div>	Sidh Sri Agra Subhasthane bhai Bansidhar Sumerchand likhi Muzaffernagar se Badri Das Bankey Lal ki Ram Ram banchna Apranch hundi nag ek apke uper kari rupia 1100 ankre gyarae sau jiska nima panch sau pachas ka duna pure athe rakha. Imperial Bank of India pass miti Baishak badi chaudas se din 61 ikshat pichehe name shah jog hundi chalan kaldar dena. Miti baishak badi chaudas sambat 1997
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**Explanation —**The above hundi is drawn by Messrs Badri Das Bankey Lal of Muzaffernagar on Messrs Bansidhar Sumerchand of Agra for Rs 1100 payable to the Imperial Bank of India after 61 days from Baishak badi chaudas 1997 on which date it is drawn. It will require an acceptance in the same way as a bill of exchange.

**Difference between a B/E and a Hundi —**

1. The hundi is written in the form of a letter and thus contains salutation while a B/E is an order and has no salutation.

2. The language of a hundi varies from place to place while the language of a B/E is same and must comply with the requirements of the Indian Negotiable Instruments Act.

3. The name of the drawee in a B/E appears in the left hand bottom corner while in case of a hundi the name appears in the body. Similarly the name of the drawer appears in the hundi in its body while in a B/E it appears in the right bottom corner.

4. A B/E has a wide circulation while a hundi is used in India alone.

5 Days of grace in a hundi varies while they are fixed for a B E

6 Hundis are not governed by the Indian Negotiable Instruments Act thus their negotiability is not recognized by law. They are treated as negotiable by the usage of trade. But a B/E is governed by the Indian Negotiable Instruments Act

7 A bill is always an unconditional order while a hundi may or may not contain an unconditional order

8 Noting and Protest are necessary in case of dishonour of a foreign bill. a hundi need neither be noted nor protested

Q 36 What are days of grace? If a B E reaches maturity on a holiday, when is it payable? (U P. 1932)

Ans Days of grace — Three days are allowed by law as the days of grace for the payment of the bill from the date on which the bill actually falls due. These days are allowed over and above the days mentioned in a bill. Thus before we can find out the maturity of the bill three days extra must be added to the actual tenor of the bill. Originally the addition of these days in England and other European countries was purely voluntary but now it has been made compulsory by law both in England and in India

These days of grace are to be added not only where the whole amount is paid in one lumpsum but even when the amount is paid by instalments, three days of grace are to be added after the date on which each instalment falls due

How to calculate maturity —

If the date on which the instrument falls due is a public holiday, the instrument shall be deemed to be due *on the preceding business day*. But in English Act a distinction is made between bank holidays and other holidays where it is laid down that when the last day of grace is Sunday, Christmas day, Good

Friday or a day appointed by Royal Proclamation as a public fast or thanks giving day the bill is payable on the *preceding* business day, but when the last day of grace is a bank holiday or a Sunday, and the second day of grace a bank holiday, the bill is payable on the *succeeding* business day

**Example** —(1) When the last day of grace falls on Christmas day i.e. 25th December (1) in England it would be payable on 24th December, (2) in India it would be payable on 23rd as 24th is generally a bank holiday

(ii) When the last day of grace is Sunday and the second day of grace is a bank holiday e.g. a bill payable on 2nd January which being Sunday and 1st January a bank holiday it would be payable (1) in England on January 3 (2) in India on December 30th as 31st is also a holiday

**Q 37** What do you mean by 'qualified acceptance'? Give illustrations. How does such an acceptance affect the rights of the holder as against (a) the acceptor (b) drawer and endorser of the bill? (U 1938)

**Ans** Acceptance is the act of signing a bill thereby giving ones assent to the conditions mentioned in the bill. This assent is usually written on the face of the instrument and is made up of the word 'accepted' and the signature of the acceptor.

The acceptance may be general or qualified. A General Acceptance is where the drawee signs his name on the bill with or without the word 'accepted' thereby signifying his assent to the bill.

But if the acceptor adds any qualification to it, it becomes a conditional acceptance or qualified acceptance. In case of qualified acceptance the drawer may either agree to such an acceptance or treat the bill as dishonoured for non acceptance.

An acceptance may be qualified in various ways —

(1) qualified as to amount or Partial Acceptance—

*e g* a bill may have been drawn for Rs 1,000 whereas the acceptor may accept for Rs 700 only, as

"Accepted for Rs 700 (Seven hundred) only"

(ii) qualified as to Time—*e g* where a bill is drawn payable one month after date, the drawee may accept it as

"Accepted payable three months after date"

(iii) qualified as to place—*e g* a bill may be made payable at a particular place and there only *e g*

"Accepted payable at National Bank and there only"

(iv) Accepted as payable in instalments, *e g*

"Accepted payable in monthly instalments of Rs 300"

(v) Conditional—*e g* certain conditions may be attached to the payment of the bill, *e g*

(1) "Accepted payable when in funds"

(2) "Accepted payable on the receipts of Consignment"

(3) "Accepted payable when the goods consigned are sold"

**Rights of the holder against the acceptor**—The holder of a bill can refuse to accept the bill if a qualified acceptance is made and can treat the bill as 'dishonoured by non acceptance'. If however he accepts and agrees to the qualifications made by the acceptor his rights against the acceptor would be limited to that extent and he can claim payment only according to the qualifications and conditions mentioned by the acceptor

(b) **His rights as against the drawer and endorsers**—If the holder accepts the qualified acceptance without the consent of the drawer and the previous endorsers, all the endorsers previous to him and the drawer who have not agreed to it expressly or by implication will be relieved of their liability to that extent *e g* if a bill is drawn for Rs 1,000 but it is accepted only

for Rs 800 and the holder accepts this bill without the consent of the drawer and the previous endorsers, the endorsers and the drawer will be liable only to the extent of Rs 800 and not more.

Q<sup>✓</sup>38 How does the position of a holder in due course of a B E differ from that of a holder of an instrument which is not negotiable? A cheque is crossed, "Not Negotiable" Does this mean that the cheque cannot be transferred any further and the holder alone can receive the payment? (R B 1939)

Ans The position of a holder in due course and that of a holder of an instrument which is 'not negotiable' - To understand the position of a holder in due course, one must know the definition and the salient points of a holder in due course

A holder in due course means 'any person who for a consideration becomes the possessor of a promissory note, bill of exchange or cheque if payable to bearer, or the payee or endorsee thereof, if payable to or to the order of the payee, before the amount mentioned in it becomes payable and without having sufficient cause to believe that any defect existed in the title of the person from whom he derives his title'

From the above definition the following salient points may be noted—

(i) the holder should get the document before the maturity of the instrument. Thus if any person takes the document after it has fallen due, he will not be called a holder in due course

(ii) he should take the document without having any knowledge of the defect in the title of the transferor & e in good faith and with proper care

(iii) he should get the document for consideration & e he must pay value for it

(iv) a fourth salient point is provided in English Law 112 that he should take the instrument complete and regular on the face of it

The position of a holder of a negotiable instrument is different than that of a holder of a not negotiable instrument. In case of a negotiable instrument if a holder gets the instrument for value in good faith and without having any knowledge of the defect in the title of the transferor he acquires a good title to the instrument even though the title of the transferor may be defective. While a holder of a not negotiable instrument cannot acquire a better title than that of the transferor and if the title of the transferor is defective the title of the transferee shall also be defective and he will be required to return it to the rightful owner even though he has paid value for it.

Thus if a cheque or B E or P N is stolen and the thief after receiving value for it transfers it to some third party who has no knowledge that the transferor is a thief the transferee in this case would acquire a good title to it while if a not negotiable instrument is stolen and then transferred to a third party who pays value for it the transferee cannot acquire a good title to it and will be required to return it to the rightful owner.

### Not negotiable Cheque —

If a cheque is crossed not negotiable it does not mean that it cannot be negotiated any further and that holder alone can receive its payment. By adding the words not negotiable within the crossing the transferability of the cheque is not impaired but these words constitute a note of warning to the transferee that he should be beware of the transferor because the transferee of such an instrument cannot acquire a better title than that of the transferor. If the title of the transferor is defective the title of the transferee shall also be defective. Thus such cheques are generally negotiated to known parties only.

Q 39 Can the holder of a B E make any alterations in the Bill? What would be the effect of material alterations? Give some examples of alterations that you would consider material (R B 1934) (U P 1929, 1938)

**Ans** The authority of a holder of a B E to make alterations in a bill is restricted by law. He is allowed to make such alterations which do not affect the liabilities of parties materially. By the Indian Negotiable instrument Act the following sort of alterations can be made by a holder of a B E without in any way affecting the liability of parties

- (i) Where no time of payment is mentioned in the instrument addition of 'on demand'
- (ii) Changing blank into special or full endorsement
- (iii) Completing an inchoate stamped instrument

**Effect of Material alteration —**

But the holder is not allowed to make any *material alteration* in the instrument without the consent of all the parties because any material alteration of a negotiable instrument renders the same void as against anyone who is a party thereto at the time of making such alteration and who does not consent thereto, unless it was made in order to carry out the Common intention of the original parties

**Examples of Material alterations —**

The following alterations are considered to be material —

- (i) Change of date with a view to reduce or increase the period of its currency
- (ii) Change of the amount
- (iii) The period for which the bill is drawn is altered e.g., where a bill is to run for three months is made to run for six months
- (iv) a new party is added.
- (v) rate of interest is altered
- (vi) place of payment is altered
- (vii) medium of payment e.g., substituting pound for rupees

**Q 40** What do you understand by a 'holder in due course' of a bill of exchange? Can a holder in due course enforce payment of a bill against the acceptor (a) if he received the bill for value from the person who forged the payee's signature (b) if the drawer's signature was forged (R B 1935)

Holder in due Course—Please refer to question no 38

Question of enforcement of a bill against the acceptor (a) if he received it for value from the person who forged the payee's signature —

Holder in due Course implies that the person has received the instrument in good faith for value and without having any knowledge of the title of the transferor being defective. In this case as he does not know that the signature of the payee has been forged by the transferor, he has no responsibility and thus can enforce payment against the acceptor even though the payee might have stopped the payment on the plea of forgery.

(b) if the drawer's signature was forged —

As here is the question of enforcing payment against the acceptor it implies that the bill has already been accepted and the acceptor before accepting the bill must have satisfied himself as regards to the genuineness of the drawer's signature. If the acceptor has not done this the subsequent parties are not responsible and as such the holder in due course can enforce payment against the acceptor. But if the bill bearing the forged drawer's signature had not been accepted then the payment could not be enforced against the acceptor.

**Q 41** Explain clearly the difference between —

(i) General Acceptance and qualified acceptance (1940 U P)

See Q no 37

(ii) Endorsement in Blank and endorsement in full —

Blank endorsement—when the endorser merely signs his name on the instrument and does not give



the name of any specified person in whose favour the endorsement is made it is termed as Blank endorsement

Such an endorsement makes the cheque payable to bearer and the instrument thus endorsed can be negotiated by mere delivery and can be cashed at the counter of the bank by any person

**Full Endorsement**—Where the endorser also adds the name of the person to whom or to whose order the cheque is made payable it will be termed as full endorsement *e g*

*Pay to Mr Johnsmith or order*

Mustaq Hussain

In this case the bank will not make the payment unless it is satisfied about the identity of the person named in the endorsement

(iii) **Holder in due course and<sup>1</sup> Holder for value (1940 U P) —**

For definition of Holder in due course refer to question No 38

Holder in due course is one who receives the instrument for consideration *i e* he pays value of the instrument *himself* while a holder for value does not pay value himself but value has been paid by some other party

**Example**—X draws a Bill on Y and Y endorses it to Z who has paid value for it then Z will be holder in due course but if Z now gives to say Irving College by way of charity then Irving College will not be holder in due course but a holder for value *i e* the donor of a bill who pays value for it is termed as holder in due course while a donee who receives it by way of charity is termed as holder for value

(iv) **A B/E and a Hand<sup>1</sup> (1938 U P) —**

Refer to Question No 35

(v) **Bank draft and a Postal order —(1938 U P)**

A bank draft is a B/E drawn by one banker upon another requesting the banker to whom it is addressed to pay (generally on demand) a certain sum of money to or to the order of the person named. Bank drafts do not require any acceptance.

Generally when payment is to be made in foreign currencies the debtor may deposit an equivalent sum in his own currency with a bank. The bank in exchange would issue a Bank draft which will be sent to the creditor who can present the draft to the drawee bank and can get the payment.

While a Postal order is an order made by a post office to pay a certain sum of money to its holder. Indian Postal Orders are available in 20 denominations starting from annas 8 and rising by steps of 8 annas to Rs. 10 and the commission chargeable in respect of each order is 1 anna. They are sold and paid by all Head and Sub Post Offices in India. If anybody wants to remit certain sum of money in India he can buy Indian Postal order from the post office after paying the amount of money and commission. He is to fill in the name of the person to whom the amount is to be paid as well as the name of the office of payment. Then he will send it to the person to whom the payment is to be made. On receipt of it the Creditor will present it to the post office and will get the payment.

The postal order can be crossed and in that case payment will be made through a bank only.

Q 42 Write short notes on —

I O U

These letters stand for the words similarly pronounced viz 'I owe you'. It is a document acknowledging a debt and is written by the debtor himself. It is not a negotiable instrument and does not bear a stamp.

Specimen —

AGRA  
8th June, 1942

Mr Sri Ram Mehra

1 0 0 Rupees eight only

P L Thakor

L/C —

L/C is an abbreviated form of Letter of Credit. The object of letter of credit is to substitute the credit of a well known bank for that of a comparatively unknown trader. Generally a letter of credit consists of an undertaking by a banker that bills drawn on the banker in compliance with the terms of credit will be duly honoured. Generally a letter of credit is issued by a banker in favour of other persons or its branches to pay the addressee an amount upto a prescribed sum on his behalf and charge him the same. The amount paid by each branch is written on the letter.

These letters of credit may be of various kinds viz. A confirmed or irrevocable credit. Unconfirmed credit, Acceptance credit. Documentary credit. Travellers' letters of credit etc.

Marked Cheque —

A cheque is said to be 'marked' when it bears the signature or initials of the drawee banker, which signifies that on the date of marking the cheque there were sufficient funds to the credit of the drawer to honour the cheque. Sometimes the Drawee banker adds some such words as 'Good for payment if presented before 1'. Thus marking indicates that the cheque will be duly honoured when ultimately presented for payment. But by marking the cheque the bank does not guarantee that the cheques so marked shall be honoured in future as it is possible that the funds at the credit of the drawer may be reduced by further cheques being presented to the banker.

### Garnishee order —

When the customer has been adjudicated insolvent, the court may issue an injunction order asking the banker not to honour the cheques drawn by him. Such an order is termed as Garnishee order. It prohibits the banker from honouring the cheques of that person.

### Retiring a Bill —

Retiring the bill means paying the amount of the bill before the time of maturity. When the acceptor pays the bill before it is actually due, he deducts the interest for the period from the date of payment to the date of maturity. The amount so deducted is termed as 'Rebate on Bills'.

### Noting —

When a bill is dishonoured either by non acceptance or by non payments, it is customary particularly in case of foreign bills to obtain formal proof that the bill has been dishonoured. This proof is obtained by getting it 'Noted' by the Notary Public. While noting the bill the Notary Public gives the following points:

- (i) date on which the bill is dishonoured
- (ii) his own charges for noting
- (iii) the number of the bill and his initials
- (iv) reasons for dishonour

### Accommodation Bill —

An accommodation bill is a bill which is drawn without consideration and for mutual accommodation either of the drawer or of both the drawer and the drawee. Such bills are also termed as 'Kites'.

### Acceptance for honour —

If a bill of exchange has been protested for dishonour by non acceptance and is not overdue, any person not being a party already liable thereon may with the consent of the holder intervene and accept the bill 'supra protest' for the honour of any party liable thereon.

A bill may be 'accepted for honour' for only a part of the sum for which it is drawn and the acceptor for honour must mention the name of the party for whose honour the bill has been accepted. Where there is no name as to whose honour the bill has been accepted it is deemed to be an acceptance for the honour of the drawer.

### Drawee in case of need —

The drawer of a bill and any endorser may insert therein the name of a person to whom the holder may resort for acceptance or payment in case of need i.e. in case the bill is dishonoured by non acceptance or non payment. Such a person is termed as 'Drawee in case of need'.

### Crossed Cheque —

A crossed cheque is one over which two transverse parallel lines are drawn with or without some words. Effect of crossing is that the payment of the cheque can be made through a bank only and not at 'the counter of the bank'. A cheque may be crossed 'Generally' in which case the cheque can be cashed through any bank. But in case of 'Special crossing' the name of a particular bank is mentioned within the crossing through which only the cheque can be cashed.

### Usance —

It is the customary period for which foreign bills are usually drawn at the place of origin. This period is governed mainly

- (i) by the distance and the facility of communication between the countries.
- (ii) and the quickness with which the goods against which the bill is drawn can be sold at the place of the destination.

**Caveat Emptor —**

It means that the buyer should take care of himself and signifies that the buyer before purchasing any goods must satisfy himself as to the title of the seller. It is opposite to *uberrima fides* i.e., observance of utmost good faith. Insurance contracts unlike other contracts are characterized by the need for the utmost good faith (*uberrima fides*) by all parties and the doctrine of *caveat emptor* (let the buyer beware) does apply.

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## CHAPTER IV

### HOME TRADE

Q 43 Clearly bring out the features of the wholesale trade as distinguished from Retail Trade and describe the services rendered by the wholesaler to the manufacturer and the retailer (1939 U P)

#### Distinguishing Features of Wholesale and Retail Trade —

1 The essential difference between the retail and wholesale trade is that in retail the sales are affected in small quantities and direct to the public whereas a wholesale trader sells in bulk or in large quantities to the retail trader

2 Retail selling is mainly for cash but the wholesale house sells largely on credit. Again though the retailer buys from the wholesaler chiefly on credit manufacturers supplying the wholesale houses usually stipulate prompt cash. Thus a retail firm may trade with a proportionately smaller Capital than the wholesaler as in so far as he purchases on credit and sells for cash he is relying upon the Capital resources of the wholesale house.

3 The wholesaler is not required to appeal to large number of individuals and thus there is no need for attractive shop front while a retailer finds it necessary to maintain a good show room and the shop to be situated in the centre of the market

4 In retail trade sales are affected directly and he has to rely mainly upon the position of his pre

mises and interior attractions and the creation of local reputation. While a wholesale firm has to rely chiefly upon sales created by travellers who carry samples of new goods to retail firms.

5 Thus in a retail trade the stock maintained is not very large while a wholesaler has to maintain sufficiently large stocks to satisfy the urgent demand of the retailers.

Services rendered by the Wholesaler to the manufacturer —

1 *Buying in large quantities*—as the wholesaler buys in large quantities from the manufacturers he enables the latter to the benefit from the economies of large scale production. The wholesaler collects different orders from various retailers and purchases in bulk from the manufacturers.

If there would have been no wholesalers the manufacturers would have to deal directly with the retailers. This would have entailed greater expense to manufacturers. Not only there is a saving of expenses but it also enables the manufacturers to produce goods more or less of standardized type as they have not to cater for the demand of small quantities of many articles from the retailers.

2 *He relieves the manufacturers from the necessity of carrying large stock*—Goods are generally produced in anticipation of demand and they are to be kept till the demand is created for them then the retailers require in small quantities. The task of keeping large stocks to enable the retailers to replenish their stock whenever is needed is performed by the wholesalers and thus relieving the manufacturers who are thus enabled to direct all the capital resources in producing goods and not in both producing and warehousing. Further the risk of wrongly anticipating the demand lies on the wholesaler as the manufacturers usually work on definite orders.



3 *Prompt Payment*—Retailers desire credit which in the absence of the wholesalers should have been provided by the manufacturers. Much of the business between wholesaler and manufacturer is for prompt cash and thus enables the latter to work on a smaller margin of capital.

4 *Study of Public Taste*—The wholesaler studies public tastes and fashions and directs the manufacturer as regards the quality and quantity of the goods to be produced.

5 Manufacturers are also relieved from the art of selling as it is performed by the wholesalers. The manufacturers thus need not be expert sellers as they produce goods for orders.

Services rendered by the wholesaler to the retailers —

(1) Successful retailer is one who keeps varied stocks. Retailers due to lack of capital and lack of space cannot maintain large quantities of each type of commodities which the consumers may require. The wholesaler helps him in this direction. He stocks the goods and enables the retailers to replenish their stocks whenever they like.

(2) The supply of goods in quantities most convenient to the retailers —Retailers donot always desire or need to buy in large quantities. Wholesaler enables the retailers to buy in quantities most suitable to them and the retailers are saved from the risk of having stocks of unsold goods at the close of the season. It also enables the retailers to obtain supplies more quickly than they could obtain from the manufacturers.

(3) Just as the wholesalers keep manufacturers informed of the changes in demand in the same way wholesalers bring to the knowledge of the retailers new type of goods for which a market may be made.

(4) *Financial assistance and cheap credit facilities —*

The most important of the services is the financial assistance given by the wholesalers to the retailers. Wholesale firms frequently grant long credit for goods supplied. This has the effect of increasing the working capital of the retailers who can obtain goods on credit and by selling goods on a cash basis can pay the wholesalers. Thus the retailer is enabled to work with smaller capital as he in effect trades with the capital of the wholesale firm.

(5) The wholesaler also regulates price by controlling supplies and thus minimises the risk of the retailers.

✓ Q 44 What are the functions of the wholesale and Retail dealers? What services does the whole sale dealer render (i) to the manufacturer and to (ii) the retailer  
(U P 1935 37, 38) (R B 1940)

**Functions of the wholesale dealers —**

1 The wholesaler does not simply perform the business of buying and selling but he also forecasts stimulates and interprets the desires of his customers. He thus in many cases decides as to what shall be produced by the manufacturers and thus suggests the type of goods to be produced.

2 He is a mediator and helps the manufacturers as well as the retailers. He on the one hand helps the manufacturers to concentrate on his own particular work and not to bother with the selling of goods in small quantities. On the other hands he helps the retailer by supplying him with goods in just the quantities and the qualities required and thus making him unnecessary for him to maintain large stocks.

He thus keeps large stocks and carries on its distribution to the retailers at the time and in the quantities required by them.

3 He helps to keep prices steady He maintains stocks and thus by controlling the supply of goods stabilizes prices

4. As he has sufficient funds and generally carries on his business with large capital, he is in a position to grant credit facilities to the consumers

The functions of the retailer —

(1) They are in direct relation to the consumers and thus learn the tastes of the consumers and direct the wholesaler as regards the kind of goods to be procured from the manufactures

(2) They sell goods in small quantities and thus are able to cope with the demand of the consumers

(3) They hold the stocks of goods at convenient local centres and thus carry on the proper distribution of the goods

(4) They display the goods in windows and by means of various show rooms attract customers and introduce new kinds of goods to the consumers

(5) They also satisfy the daily demand for fresh food stuffs and procure goods from the wholesalers to suit individual requirements Thus they supply the local needs of the district and the individual or special need of different classes They hold variety of goods and thus enable the consumers to make selection

(6) Sometimes they also grant credit to the consumers

The above are in main the functions performed by the retailers but these functions vary considerably and that is why we find different types of retailers

Services rendered by the wholesaler to the  
(i) manufacturer and (ii) to the retailer —

See question No 43

**Q 45** It is asserted that the wholesale trader renders services to manufacturers on one hand and to retailers on the other. What are these services and in what way do they result in benefit to the ordinary member of the public purchasing goods

**Ans** Services to the manufacturers and to the retailers—See question No 43

**Benefit to the ordinary Public —**

*The public benefits from the work of the wholesaler in the following ways —*

The average retailer offers a better choice of goods than he could otherwise do and supplies the public a fresher and more upto date stock of seasonal and perishable goods

As the manufacturers are enabled to specialize and produce in large quantities cost is lower and retail prices less than they would be if the manufacturers in addition to the commercial or selling side had to make too small orders direct from the retailers

**Q 46** What services are rendered by wholesalers to retailers? Are the former always necessary to the latter? Illustrate your answer by examples

**Ans** Services rendered by the wholesalers to the retailers —See question No 43

**Necessity of wholesalers —**

Retailers find the services of wholesalers most necessary when they are dealing in a variety of goods, in which case if they deal directly with the manufacturers they will be required to place different orders to different manufacturers which would mean great delay and expense

Then again the services of a wholesaler is essential where the retailer is trading with a smaller amount of capital and needs more credit facilities, e g, a

drapery and outfitting establishment has a diverse stock that is not produced by one manufacturer

On the otherhand the retailers who specialize in their sales do not need the services of wholesalers *e g* boot and shoe retailers cycle and motor car dealers, sellers of sewing machine etc

Lastly a large retail firm having ample capital resources and turnover may purchase in large quantities directly from the manufacturers and thus can eliminate the wholesalers

Q 48 Compare price lists, prices current, quotations and firm offers (U P 1932)

Prices current —It is a list of prices of certain goods issued to inform the customers of the prices as on the day of issue It is always dated and does not constitute a promise to sell the goods at the price stated It indicates merely the current prices and by comparison with earlier lists, the customer can judge the trend of prices The lists are mainly of foodstuffs and such other commodities that likewise vary in price from day to day in the wholesale market

Price List —A price list is a list of goods offered for sale showing the prices asked for them These donot only show the state of prices at the time of issue but also offer the public to sell articles definitely at prices given therein But at the same it does not form a promise to sell because the stock of any particular line may be exhausted when an intending purchaser send his order The prices given in a price list are intended to be in force for a definite period. Change in prices are usually notified to regular customers

Thus Prices current are used as a means of indicating current prices and *only* as a guide to possible purchasers while price list is a list of prices which are

to remain in force for a definite period and on which the goods are offered for sale

**Firm offers** — A firm offer is made when the seller promises to sell certain goods at a certain price provided the order is given within a particular time. A firm offer is thus made to one firm and unless he refuses to buy or unless the time allowed for purchase elapses goods cannot be sold to any other person.

**Quotations** — Quotations are simply offers of goods at the prices stated therein. They are generally supplied when asked for. A quotation is a list of prices of only a selected number of articles while a price list is a list of prices practically of all the goods in which a firm deals. It is an offer to sell certain goods at prices under stated conditions.

A firm offer cannot be withdrawn before the expiry of a fixed period while a quotation or a price list can be withdrawn any time before the order is placed.

**Q 49** Describe the procedure of sending goods by rail from one town to another and mention the forms and documents which will have to be filled up and the procedure necessary to take delivery of the goods.  
(U P 1940)

**Ans** Procedure of sending goods by Rail —

When goods are to be sent by rail they may be sent either per goods train or per passenger train when the goods are to be forwarded by goods train the sender is required to fill in a Consignment Note which is a request to carry the goods. On the back of this note are printed the conditions under which the railway company agrees to carry the goods. This note is supplied free by the railway company and the consignor has to fill in the following information

(1) Number, quantity and description of the goods as also the weight of the goods so that the railway authorities may fix the freight

(ii) The name and address of the consignor and also the consignee

(iii) Whether the freight is paid or is to be paid by the consignee

But if goods are to be forwarded by passenger train a Forwarding Note which is similar to a Consignment Note is required to be filled in by the consignor

Then the goods may be consigned either at the owner's risk (O R) or at the company's risk (C. R) When goods are sent on company's risk, the company is responsible for any loss or damage to the goods in transit But when goods are forwarded on owner's risk, the consignor has to fill in and sign a Risk Note, by which the consignor takes the responsibility of any damage or loss of the goods in transit

Then the railway company will fix the freight which may be paid by the consignor or it may be paid by the consignee but in case of perishable goods or dangerous goods the freight must always be prepaid

Then Company will issue a Railway Receipt which contains the particulars as to the nature and quality of the goods names of the consignor and consignee the place of despatch and the place of destination and the amount of freight paid or to be paid On its back are printed the various terms on which the railway company agrees to carry the goods A R/R is a document of title and is transferable by endorsement and delivery and it is also an acknowledgement of the goods and is a contract of affreightment It is not a negotiable instrument in the strict sense of term as the holder of it cannot acquire a better title than that of the transferer

How the delivery of the goods can be obtained —

Railway receipt would be sent by post to the consignee as the delivery of the goods can be had on

the production of the railway receipt. In case the consignor is also the consignee, he should endorse the R R in favour of the buyer before the despatch of it. In addition to the production of R R the person taking the delivery of the goods is also required to sign on the railway company's register. Delay must not be made in taking the delivery of the goods because if the delivery is not taken within a stipulated time, a charge called demurrage is to be paid to the railway company.

In case the railway receipt is lost, an indemnity bond, properly stamped must be executed by the consignee. The railway authorities will obtain the consent of the consignor before delivering the goods on the basis of Indemnity bond. This consent is particularly essential when the person claiming the goods is not known to the railway authorities or cannot give satisfactory references.

✓ Q 50 What is a railway receipt and what purposes does it serve? How can a consignee obtain the delivery of the goods if the R R is lost?

Ans — See question No 49 later portion.

Q 51 What steps are usually taken to secure the payment of an overdue account in business?

(R B 1938)

Ans — Steps usually taken to secure the payment of an overdue account in business —

1 A statement of account is sent to the customer. This may contain the following such words—

Your account is much overdue, an early payment will highly oblige us.

A statement of account as a matter of fact should be sent every month. This will serve the purpose of a reminder.



When the second statement of account is sent it may have the following words—

The account is four months overdue and an immediate settlement is requested

2 If this sending of statement of accounts does not result in the obtaining of payments collection letters or Dunning letters should be sent. These letters should be polite and should be tactful. The wording should not be such as may wound the feelings of customers because though it may result in obtaining the payment, but you may lose your customer. As far as possible request for the extension of the period may be granted. If the first letter does not result in payment a series of letters are to be sent and each of these should be more persuasive and forceful than the first.

3 In the end the matter may be entrusted to a legal practitioner and legal steps may be taken after giving threat for a legal step.

Q 52. What are documents of title to goods. Name and explain briefly three such documents of title and show how they can be transferred  
(U P 1939), (R B 1934)

Ans —Documents of title —Sale of goods Act 1930, defined document of title as including, 'a Bill of lading, dock warrant warehouse receipts warrant or order for the delivery of goods and any other documents used in the ordinary course of business as proof of the possession or control of the goods or authorising or purporting to authorise either by endorsement or delivery, the possessor of the document to transfer or receive goods thereby represented'

Thus in brief documents of title are those documents which entitle the possession of the goods to its holder. Such documents are transferred by endorsement or delivery.

**Bill of lading** —It is one of the most important document of title to goods. It is a receipt granted by shipping authorities when goods are sent to foreign countries through the agency of a shipping company. It contains the particulars and the terms on which the shipping company undertakes the carriage of the goods. Thus it is a contract of carriage for the goods as between shipper and the shipowner. It is prepared in triplicate and signed by the captain of the ship. It constitutes a document of title to the goods and can be transferred by endorsement and delivery and entitles the possession of the goods to its holder.

## 2 Dock warrant —

It is a certificate from the Dock Company to the effect that certain goods which are described therein are in their possession and will be delivered to any person specified by the owner. Thus any person specified in the dock warrant can get the possession of the goods. Thus dock warrant also forms a document of title to the goods and can be transferred from one party to another.

## 3 Railway Receipt —

When the goods are sent from one place to another through the agency of the railway company the railway authorities on receipt of the goods grant a receipt to the consignor. This receipt entitles its holder to get the delivery of the goods at the destination on its presentation.

This receipt forms a contract between the consignor and the railway company for the carriage of the goods. It gives (i) the number, quantities, description and weight of the goods (ii) the name and address of the consignor and the consignee (iii) and whether freight is paid or is to be paid. On the back of it will be found the various conditions on which the railway company undertakes to carry the goods. The delivery of the goods must be taken within a fixed time otherwise a penalty for the delay, called

demurrage is charged from the consignee. If the consignor is also the consignee, he should endorse the railway receipt in favour of the purchaser. When a railway receipt is lost, the consignee can take delivery of the goods only after executing an indemnity bond.

This receipt can be transferred by endorsement and delivery.

**How documents of title can be transferred —**

These documents are quasi negotiable documents. These can be transferred either by endorsement and delivery or by delivery alone, but the holder cannot give a better title to the transferee than he himself has. i.e. the transferee of such documents cannot acquire a better title than that of the transferor.

**Q 53 Write Short Notes on —**

**✓ F O R Destination —** This means free on rail at the destination. Thus free on rail quotation includes all charges to the railway station of the town of destination, i.e., railway freight from the railway station of the sellers town to the railway station of the buyers town is included in it.

**Risk Note —**

When the goods are accepted by the railway company for transportation on Owner's risk, a note is to be filled in by the consignor. This note is termed as Risk Note. The effect of this note is that the railway company is freed from any loss occurring during transit provided it is not caused by the employees of the Company intentionally. There are certain classes of goods, like perishable articles or articles not properly packed which are not accepted by the companies on their own risk.

**Letter of Hypothecation —**

When goods are exported and the documents are sent through a bank, to be handed over to the

importer on his accepting or paying the draft an advance is generally secured from the bank. When such an advance is secured a letter of hypothecation is given to the banker. By this letter the bank in the event of the dishonour of the draft is authorized to sell the goods in order to reimburse itself for the amount advanced to the exporter. The effect of this letter is to give the banker the charge over the goods and the proceeds.

### ✓ Credit Note —

A credit note is the reverse of a debit note and is sent in the following cases

(i) By the buyer to the seller when the former has been undercharged

(ii) By the seller to the buyer when the former has been overcharged

(iii) By the seller to the buyer when the faulty goods or empty packages have been returned by the latter. Credit Note is written in red ink so as to distinguish it from an invoice.

Example —

### CREDIT NOTE

Messrs John Bros Imperial Building		MOUNT STREET 12th Jan 49	
		Cr by Macmillan & Co	
9th Jan	By return of empty packages	£	5 9
		2	1

**Commission Agent —**

It is a term usually applied to an agent who is employed to sell goods on behalf of his employer at the best possible terms in consideration of a fixed remuneration known as Commission

**Del credere Agent —**

Del credere Agent who in return for a higher commission than usual, undertakes to hold himself personally liable for the default of the customers in payment. Thus if any bad debt occurs the agent is to be responsible. The extra commission that he is given for the additional risk is termed as del credere commission

**Clearance Sale :—**

It is a sale of the old stock to clear it off. Prices are generally lowered at such occasions

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## CHAPTER V

### FOREIGN TRADE

#### (IMPORTING AND EXPORTING)

**Q 54** Give the Types of Business Houses engaged in the Export Trade of India and point out briefly the defects in each (1935 U P)

**Ans** Types of Business Houses engaged in the Export Trade of India

#### 1 Manufacturers —

\* These manufacturers obtain orders from customers abroad and despatch goods direct or through a forwarding agent. In India there are certain manufacturers like Cotton Mills of Bombay, Calcutta, Madras, Jute Mills of Bengal, Lalimli and Dhariwal Mills who receive orders direct from abroad.

**Defects** — These manufacturers when doing direct business cannot put in their best attention as they have to look towards the manufacturing of the things as well. Besides they cannot be expert in the art of selling and thus efficient business cannot be transacted. When they receive direct orders, it generally causes delay in the despatch of goods which may lead to a consequent loss of business. Hence they have to engage the services of certain forwarding agents.

#### 2 Export firms and Merchants :—

These merchants supply their customers abroad with goods which they themselves purchase from various manufacturers. These firms are a few in numbers and are usually of good standing.

**Defects** — These agents though aware of the various formalities of trade cannot be expected to be efficient so far as purchasing of goods is concerned. Besides they charge their own commission which enhances the price of the goods purchased.

### 3 Importer's Buying offices —

These are offices in the country of export which are maintained by foreign importers for the purpose of buying goods in accordance with the instructions sent to them by their principals. Their number is by far the largest. Some of them are Indians and others are foreign.

**Defects** — India being an agricultural country most of these are engaged in the export of raw materials and thus deprive the producer of his legitimate gain as the producer being ignorant, is unaware of the market conditions in foreign countries. Besides they compete with traders who require goods for home consumption and in most cases outbid them.

## IMPORTING

**Q 55** Outline the procedure to be adopted by an Ajmer merchant who desires to import some goods from England (1937 R B)

**Ans Indent** — The first thing in the importing of goods is to place an indent or order for goods with a manufacturer in England, or to an exporting firm there. Indent is an order containing full particulars of the goods ordered. In it are mentioned the quantity, quality and price of the goods ordered, the mode of packing and marking, insurance, port of destination and the method of payment.

Sometimes the indent may be placed through Indent Houses. These Indent Houses serve as an intermediary between buyers in one country and manufacturers in the other. These Indent Houses provide an useful link to those local merchants whose

requirements are small or whose credit is low and who are ignorant of the names and addresses of the goods they need. Such Indent Houses are largely found in port towns of Bombay, Karachi, Calcutta and Madras. They receive orders from various small dealers and place a large order to the manufacturer out of which they supply the need of the local dealers.

On receipt of the indent the agent will procure the goods from the manufacturer and will arrange for their shipment. On each package a distinction mark, its number and port of destination will be stamped.

When the goods are ready for shipment the services of the forwarding agent will be utilized. The forwarding agent will go through various custom formalities. He will obtain three copies of Bill of Lading from the Shipping company and will effect insurance. Having secured the Bill of Lading which is a Contract of Affreightment and the insurance policy, the exporter will prepare the invoice. Three copies of the invoice will be prepared to be sent with three copies of B L. A certificate of Origin will be obtained which will help in the imposition of import duties. All these documents will be sent to the importer with a letter of advice. Generally these documents will be sent through an exchange bank with instructions that the documents are to be delivered to the importer either on acceptance of the draft or on payment of the bill.

**Securing Delivery of the Goods** —The importer on receipt of the letter of advice relating to the shipment will arrange to obtain these documents from the bank. The bank through which these documents have been sent will deliver the documents to the importer either on acceptance or on payment of the documentary bill according to the instructions received from the exporter.

**Clearing the Goods** —The importer on receipt of these documents will require the services of the



Clearing agent and thus will endorse these documents in favour of the clearing agent at the port. The agent will then go through the following formalities

(i) **Endorsement of Delivery** —On arrival of the ship he will procure from the local agent of the shipping company an endorsement for delivery on the B L. The Bill of Lading will be endorsed after the agent of the shipping company has recovered freight if it was not paid by the exporter.

(ii) **Bill of Entry** —Then he will fill up a Customs Bill of Entry on the basis of which customs authorities will assess import duty. This form is prepared in triplicate and contains all information regarding the value, quantity and description of the goods. The Bill of Entry forms are prepared in different inks, one in black, the other in blue and the third in violet.

(iii) **Bill of Sight** —When the importer or his agent has no definite information about the description, quantity and value of the goods, he has to fill up a statement called Bill of Sight. This will contain a declaration by the importer or his agent to the effect that he is not able to describe the goods fully. In such cases goods will be examined in the presence of a customs officer and then ascertained whether they are dutiable or not.

(iv) **Application to Import** —(Dock Chalan) In addition to Bill of Entry, the agent has to fill another form called Application to Import. This is prepared in duplicate and is presented at the Landing and Shipping Office. In this office a charge is made on all goods imported in the country representing the payment for the services rendered by the Dock Authorities in connection with the landing of the goods.

On payment of the landing charges, one copy of the Application to Import is returned to the importer or his agent who then presents the same together with three copies of the Bill of Entry at the customs house. The customs house after carefully examining

the form will levy duties which the importer must pay before he can be allowed to take away the goods. If the goods are 'Free Goods' they will be allowed to pass without the payment of any duty.

**Survey and Warehousing** — When the goods are landed, the clearing agent will examine the goods and if he finds them to be damaged he will report in writing to the agent of the vessel who will then arrange for a survey.

If the importer is not in the immediate need of the goods imported by him and has no godown of his own, or has the intention of re-exporting them, he may keep them in a Bonded warehouse for which application is to be made to the customs authorities. Then the goods will be warehoused from where they cannot be removed until the duty is paid. These are special warehouses owned by the government. The goods warehoused lie under the supervision of customs authorities and rent is charged for the use of these warehouses. When the goods are warehoused, a receipt is issued known as Dock Warrant or Warehouse Certificate. It bears a stamp and can be transferred by endorsement and delivery.

**Despatch of the goods to the importer** — If the goods are not warehoused, delivery will be obtained and then they will be despatched to the importer at Ajmer. The agent will then send the Railway Receipt together with a copy of Bill of Entry, Application to Import and a bill of his own charges.

The importer on receipt of R/R will arrange to take delivery of the goods after paying freight and Octroi duty. The importer may then send a cheque to the clearing agent in settlement of his dues.

**Q 56** Describe noticing the Relevant Commercial Documents the Importation of a dutiable commodity which passes through a Bonded Warehouse in the process. (U P 1934)

Ans Refer to the answer to Question No 54

Q 57 An Agra merchant desires to import some sewing machines from Germany? State the procedure he must follow in order to secure these goods  
(U P 1933)

Ans See Question No 55

Q 58 The Bharat Engineering Company of Cawnpore have imported some machinery from a firm in England Explain the procedure that will have to be followed by the importing firm to take delivery of the goods

Ans. Refer to question No 55

Q 59 A merchant in Delhi wishes to import certain goods from Germany Explain briefly the procedure that he should follow  
(R B 1938)

Ans Refer to question No 55

Q 60 You have imported dutiable goods from Japan of the value of Rs 50000 The amount of duty to be paid is Rs 20000 You have not enough cash to honour the draft and to pay the duty Clearly explain how would you complete the transactions and take delivery of the goods  
(U P 1936)

Ans When we do not have sufficient amount to honour the draft we can approach an exchange bank and request the bank to honour the draft on our behalf on the security of the shipping documents which will be endorsed in favour of the bank Certain amount may also be paid in cash by way of margin The bank will then arrange to take delivery of the goods and to get it deposited in a Bonded warehouse A bonded warehouse is a go down maintained by the government where goods may be kept if the importer does not have sufficient money to pay the duty or if he does not want to pay the duties till the goods are sold For this purpose

an application will be made to the customs authorities and the goods will be warehoused in the supervision of the customs officer

In the meantime money can be obtained by selling the goods on the basis of the receipt or the Bonded warehouse Certificate obtained from the customs authorities. This certificate can be transferred by endorsement and delivery and money may be obtained and transaction may be settled

**Q 61** A Delhi Merchant orders some goods from Liverpool. The goods are supplied to Bombay and the shipper draws on the Delhi Merchant at 30 d s D/A, through the National Bank of India Ltd, Delhi. Make out a list of the various charges which the Delhi Merchant will have to bear in addition to F O B Liverpool price before the goods are received by him. Also name the principal documents which will be used in the transaction

**Ans** Charges in addition to Liverpool F O B price —

1 **Freight** —As the price is F O B (Free on Board) it does not include freight. Thus freight for the transport of the goods from Liverpool to Bombay will be paid to the shipping company

2 **Marine Insurance** —as the goods are not insured by the exporter, the Delhi merchant will effect insurance and will be required to pay insurance premium to the insurance company

3 **Import duty** —If the goods are not free of duty, the importer will be required to pay import duty levied by customs authorities at the port

4 **Dock charges** —this includes all the charges due to dock authorities and must be paid before the goods can be removed from the docks.

5 **Carriage** —from the dock to the railway station must also be paid

6 Commission —of the clearing agent for clearing the goods will also be paid

7 Railway freight —from Bombay to Delhi will also be paid

8 Octroi charges —these are duties levied by municipalities on goods brought within the municipal area

9 Carriage —from Delhi Station to the importer's go down

Principal documents to be used —

1 Indent —It is an order which will be sent by the importer to the foreign exporter on the basis of which goods will be sent

2 The Bill of Lading Insurance policy and the Export Invoice will be obtained from the National Bank of India Delhi Branch on acceptance of the D/A bill

3 Bill of Lading and the Insurance policy will be sent to the clearing agent at Bombay duly endorsed in his favour. He will fill in a customs house form in triplicate. This form is known as Bill of Entry. This will contain all information regarding the quantity value and description of the goods and will form the basis of import duty

4 Dock Chalan or an Application to Import will be filled in which will form the basis for the payment of dock charges. Bill of Lading duly endorsed will be surrendered to the dock authorities

5 If the goods are warehoused in a Bonded warehouse a Dock Warrant shall be issued by the customs authorities. It will form the receipt of the goods at bonded warehouse

6 When goods will be sent from Bombay to Delhi by rail, a Consignment Note shall be filled in

containing the particulars of the goods, name and address of both the consignor and consignee and whether freight is paid or is to be paid. If the goods are sent on owner's risk a Risk Note shall also be filled in,

7. Then the railway company will grant a Railway Receipt. It is an acknowledgement of the receipt of the goods by the company and lays down the conditions on which the railway authorities agree to carry the goods. Thus it is a contract of affreightment.

8. Octroi chalan — When octroi duty has been paid an octroi chalan shall be issued by the octroi authorities.

## EXPORTING

Q 62. Anant Ram of Ahmedabad Exports 60 Bales of cotton to a firm in Manchester. Describe briefly the procedure he will follow in exporting goods and enumerate the principal documents that will be used in the course of the transaction.

(1937 U P 1930 U P)

Receipt of Indent — After the settlement of the terms regarding the price etc., an indent will be received by Anant Ram. It is an order for the goods and contains all information regarding the quality and quantity of the goods, mode of packing and making time of shipment price, insurance and method of payment. The exporter is required to take proper care in complying with the terms mentioned in the indent.

Then the goods will be packed and marked according to the instructions given in the indent. Particular attention will be given to packing as shipping companies charge freight based not merely on the weight of the cargo but upon measurement and weight combined. Thus the maximum quantity of goods consistent with safety must be packed in the minimum of space.

**Sending the goods to the forwarding agent** —As the exporter resides in an inland town it will be convenient if the goods are sent to the forwarding agent. When a forwarding agent is appointed all the necessary formalities will be gone through by him. The Railway Receipt duly endorsed will be sent to the agent who will take delivery of the goods from the railway company.

**Securing Freight and Shipping Order** —When goods have been received by the forwarding agent arrangement will be made for their shipping through a steamship company. This is technically known as **Securing Freight**. This is generally done through freight brokers. The steamship company after agreeing to carry the goods at a certain rate issues a **Shipping Order**. This is an order to the captain of the ship asking him to receive on board the goods from the party mentioned in the Shipping Order.

**Customs Formalities** —When the freight has been secured the agent will go through certain customs formalities. A **Shipping Bill** in triplicate will be filled in mentioning the quantity, description and value of the goods to be shipped, port of destination and so on. This form will be obtained from the customs house.

Another form to be obtained from the **Landing and Shipping Dues Office** known as **Application to Export or Dock chalan** will also be filled in duplicate. These two forms will be presented to the **Shipping and Landing dues Office** and the shipping dues representing the payment for the services of the dock authorities will be paid.

The three copies of **Shipping Bill** and one copy of **Application to Export** will be returned to the forwarding agent. Then these forms will be presented to the customs collector. Customs authorities will make necessary entries in the customs register.

**Bill of Lading** —The mate's receipt will be exchanged for Bill of Lading from the shipping company's office. It will be signed by the captain of the ship. Any remark appearing in mate's receipt will also appear in the Bill of Lading. B.L. forms the Contract of Affreightment and lay down the terms and conditions on which the shipping company agrees to carry the goods of the exporter. It is a document of title and can be transferred by endorsement and delivery.

**Insurance** —If the marine insurance is to be effected by the exporter, the goods will be insured by the forwarding agent against risks at sea before their despatch. He will obtain the insurance policy. Large exporters who have to ship several consignments during the year, generally take out an 'Open Marine Policy' and as consignment is being shipped, the exporter instructs the insurance company to cover the risk under that policy and issue the necessary certificates of insurance.

**Certificate of origin** —Owing to special trade agreements between certain countries goods going from one friendly country to another generally receive preferential treatment in respect of import duties. Therefore it is to be proved that the goods are the genuine product of the exporting country on whose goods a preferential treatment has been claimed. To prove this a certificate of origin is needed, showing the name of the country in which the goods have been manufactured.

This certificate will therefore be obtained by the exporter or his agent to be sent to the importer so as to enable him to get an advantage of the preference in duties. In India preferential duties are levied on the goods manufactured in England and Colonies.

**Advice note and Invoice** —The agent will prepare the advice note. He will also prepare a bill of



expenses and commission and will send it to the exporter together with various documents viz B/L, Marine Insurance Policy, copy of the shipping bill, Application to Export and Certificate of origin

Then the exporter will prepare the Export Invoice, giving the name of the vessel, marks and number of cases together with the price of the goods. The question of charges incurred and the prices of the goods to be entered in the invoice depends chiefly upon the terms on which the goods have been sold. If the goods have been sold on C I F basis the invoice is not to contain any reference as to insurance, freight and other charges paid by the exporter. However, if the goods are sold on F O B basis the invoice will contain not only a detail description of the goods and their value but also the charges in connection with freight, insurance etc. which will be shown separately. The invoice is made in triplicate.

**Securing payment** — Payment can be obtained in either of the following ways but the last two are more preferable and generally found in practice

1 The exporter may draw a Bill of Exchange attaching the necessary documents viz Invoice B/L, Insurance Policy, Certificate of origin etc and may send them through an exchange bank, which may be asked to deliver the documents either on acceptance of the bill in which case the bill will be termed as D/A (documents against acceptance) or on payment when it will be termed as D/P (documents against payment)

Under this method the exporter has to wait for a longer time after shipping the goods as the bank will credit him only when it has realized the proceeds. Thus his capital is locked up for a long time.

2 In the second method the exporter discounts his bill with an exchange bank having a branch in the importer's country. For this purpose the exporter gives a letter of hypothecation which authorizes the

bank to sell the goods and reimburse herself in case the bill is dishonoured by the importer. If the sale realizes an amount less than the amount advanced the exporter holds himself responsible for the difference.

3 Here the exporter asks the importer to open a Letter of Credit in favour of the exporter. For this the importer approaches the banker in his own country and obtains a letter of credit in favour of the exporter. This Letter of Credit will make a specific provision that the credit is to be given only on the terms laid down in this letter and also for the necessary documents like B/L, insurance policy etc.

Thus the exporter on the basis of this Letter of Credit can obtain immediate payment after handing over the various documents to the bank. It is this method that is most popular.

**Q 63** Ram Mohan & Co Bombay Exports a consignment of cotton to Edward & Co Liverpool. Give the procedure of Exportation and enumerate the documents used in the transaction (1938 U P)

**Ans** The same procedure as laid down in question number 62 will be followed. But here as Ram Mohan & Co reside in Bombay they may not appoint a forwarding agent and may perform all the work themselves. But in all probability they will also engage the services of the forwarding agent who is more in touch with the necessary formalities and customs authorities and may finish up work more easily and quickly. Besides Ram Mohan & Co will not employ the services of the railway company as the goods will be directly carted from the exporter's warehouse to the docks.

**Q 64** Define a bill of lading. What Functions does it fulfill? Describe the characteristics of a negotiable instrument in such a way as to make it clear how if at all a B/L falls short of being one (1937 U P, 1940 R B)

**Ans Definition of a bill of lading —** It is an acknowledgement of the goods received by the company to be carried to some foreign country. It forms the basis of contract between the shipping company and the consignor and lays down the terms on which the shipping company agrees to carry the goods. It gives the quality, quantity and the conditions of the goods, the marks and number of packages, the name of the shipper, the name of the consignee, the name of the ship and its master and also the freight and whether paid or to be paid. It is generally made out in sets of three, each of which requires a stamp. Two copies are usually sent to the consignee by different mails so that if the first is lost in transit, the other may be delivered to him in time.

For further details refer to question number 62

**Functions —**

1 It forms a receipt of goods by the shipping company

2 It is a contract of affreightment and lays down the conditions on which the shipping company undertakes to carry the goods of the consignor to its port of destination

3 It is also a document of title of the goods and thus entitles its holder the possession of the goods and can be transferred by endorsement and delivery

4 As it is a document of title and is thus equal to the possession of the goods, it can be pledged as a security for any loan obtained by its holder

**Characteristics of a negotiable instrument —**

Refer to question number 22 (a)

The main characteristic of a negotiable instrument is that the holder of it, if he has paid value for it and has received it in good faith, acquires a good title to it even though the title of the transferor is defective and thus can sue upon the instrument in his own name.

A Bill of Lading is frequently described as a negotiable instrument though it is not one in the strict sense of the term. Though there are many points of resemblance between a bill of lading and a negotiable instrument, e.g., it can be transferred by endorsement and delivery and the transferee can sue in his own name but it differs from a *bill of exchange* on the point of negotiability because in case of bill of lading the holder cannot give a better title than he himself has i.e. the transferee cannot acquire a better title than the transferor and thus if the title of the transferor is defective the title of the transferee shall also be defective whereas in case of a negotiable instrument the holder-in due course who receives the same for value and in good faith receives the instrument free from all defects in the title of the transferor. Thus a bill of lading falls short of being a negotiable instrument and can be termed as quasi negotiable.

#### Q 65 Write short notes on —

**F O B** — 'Free on Board'—This term when added to the quotation means that the price includes all expenses from the seller's warehouse to the loading of the goods on board of the ship. It does not however, include freight from the port of the seller's country, to the port of the buyer's country.

**C I F** — Cost, Insurance, and Freight—This quotation includes all expenses required to be incurred in the seller's country, including premium for insurance and freight from the port of the seller's country to the port of the buyer's country. Besides, it includes (a) Packing and making up charges (b) carriage to port (c) Export duty (d) Dock dues (e) Loading charges (f) Freight (g) Marine Insurance Premium.

**Certificate of origin** —Owing to special trade agreement with Dominions and India Great Britain gets favourable treatment in the imposition of import duties on manufactured goods. Thus duties are imposed according to favoured rates. To prove this

fact that the goods have been manufactured in Great Britain the customs authorities require a certificate to this effect. The certificate is set out in a Certificate of Origin. The certificate takes the form of a declaration by the exporter as to the accuracy of the invoice and must usually be sworn by him either before a magistrate or before a Chamber of Commerce, after which it is presented to the Consul of the importing country for legislation.

**Consular Invoice** --In many countries *advalorem* import duties are charged and in order to avoid incorrect returns it is required that the importer shall present an invoice containing the F O B price and shipping charges duly certified as to correctness by the Consul of the importing country stationed in the exporting country. The invoice so certified is termed as Consular Invoice.

A special form is required and the exporter or his agent has to swear as to the accuracy of prices after which the Consul appends his signature in return for a prescribed fee. This is prepared in triplicate or more. One copy is retained by the Consul one being forwarded to the customs authorities in the port of destination and other handed over to the exporter who forwards it to the importer with other documents.

Where the law of the country requires the use of *Consul Invoices* they are compulsory, and the goods cannot be obtained by the importer without invoices of that type. In fact in certain cases, a heavy fine is payable if such invoices are not available. Where there is no such legal requirements the use of such document would be a waste of time and the Consul would refuse to sign the invoice. However, their benefit in easing the task of examination of the goods at the port of destination cannot be overlooked as the customs authorities may rely on Consular invoice.

**Dead Freight** --In case of Charter party agreement where whole of the ship is hired for a particular

voyage, freight is usually calculated at so much per ton if the ship is not 'fully loaded' the Charterer & the merchant hiring the vessel is required to pay the difference between the total agreed freight and the actual freight on the cargo shipped. This difference so paid is termed as 'Dead Freight'. It is the freight for which no benefit has been achieved. It is also termed as 'Dead Weight Tonnage'.

**Lay Days** — Certain days are allowed for the loading and unloading of the cargo from the ship. These days are termed as 'Lay Days'. In case the ship is detained beyond these lay days, the shipper has to pay an extra charge termed as 'Demurrage'.

**Mate's Receipt** — When goods are received on the ship from the docks, the packages are counted and conditions of the goods noted in the presence of the representative of the exporter, who will assent to the protest against the remarks which the ship's officer may desire to pass on the condition of packing. When the process of taking the goods on the ship is over, a receipt for them called 'Mate's Receipt' is given by the *Captain* of the ship to the agent. This receipt may be clear or foul. A clean mate's receipt certifies that the goods are in good condition. On the other hand if any defect is noted, then the receipt is termed as a 'Foul Receipt'.

**Bonded Warehouse** — These are special warehouses owned by the government in which goods may lie till the payment of the duty. If the importer is not in immediate need of the goods imported by him and has no godown of his own or has the intention of re-exporting them, he can, without the payment of duty, have them removed in a special warehouse. Such warehouses are termed as 'Bonded Warehouses'. Here goods lie under the supervision of the customs authorities, and rent may be charged for the use of these warehouses.

Advantages —(1) It is made possible for the merchant to take delivery of as much quantity of goods as he requires by paying custom duties on the portion taken out.

2 It enables the importer to re export a part of the goods, if they are not required for that country without paying the customs duties

3 This system also enables the merchant to sell the goods by endorsing the Warehouse Certificates given by the Customs Office for the goods lying in their warehouse

4 Unsaleable goods can be destroyed without paying the duty and thus the import duty on such goods can be saved

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## CHAPTER VI

### INVOICES AND ACCOUNT SALES.

(Preparation of B/E, Invoices, Statement of a/c,  
Debit note, Credit note, Export Invoice,  
Account Sales etc )

**Q 66** Prepare a statement of Account to be submitted to the debtors giving imaginary particulars

**Ans**

Agra  
6th Dec 1940

Messrs. Krishna & Co ,  
Lahore  
Dr to Murari Book Depot,  
Hospital Road,  
Agra

		Rs	As	P	
Sept 19	To Goods	505	6	9	
Oct 10	By Returns	101	3	6	
			Rs	404	3 3

**Q 67** What is a debit Note ? You have returned two empty cases to a firm from whom you purchased goods Prepare a Debit Note for Rs 6/-

**Ans** Debit Note —It is similar to an invoice and is generally used to correct an error. It shows the particulars for which the account of the buyer or seller is debited. It is generally sent in the following cases —

(i) From the buyer to the seller, when the former is either returning defective goods or is returning empty packages etc.

(ii) If the buyer has been overcharged then the buyer would send a Debit Note, while if the buyer has been undercharged, the seller would send a



## Debit Note

Anarkali  
Lahore, 1st Jan 1942

Messrs The Agra Book Store  
Dr to Bahadur Mal & Co

		Rs	As	P	Rs	As	P
2	Empty cases returned				6	0	0

**Q 68** What is a Credit Note? Prepare a Credit Note using imaginary particulars (1938 R B)

**Ans** A Credit Note is just the reverse of the Debit Note and is sent by the seller to the buyer in the following cases —

(i) When the buyer has returned defective goods, empty cases etc

(ii) When the buyer has been overcharged

It is generally printed in red ink to distinguish it from an invoice

Specimen of a Credit Note —

Agra  
1st Jan 1942

Messrs Dorab & Sons  
Allahabad  
Cr by Murari Book Depot

		Rs	As	P	Rs	As	P
2	Modern Business Training by Grebbv returned				4	0	0

**Q 69** Prepare an invoice from the following particulars :

Messrs Krishna & Co Cawnpore sent the following goods to Messrs Kapoor & Sons, Benares, and draw on them a bill for the amount payable two months after date  
Trade discount to be allowed 5 p c

72 yds Tweed at Rs 2 8 a yd

48 yds Serge at Rs 5 a yd

60 yds Gray Flannel at Rs 3 12 a yd

Packing and forwarding charges Rs 7-8

Also prepare the draft  
Ans

## INVOICE.

Cawnpore  
1st Jan 1942.

Messrs Kapoor & Sons,  
Benares  
BOUGHT OF  
Krishna & Co.

		Rs	As	P	Rs	As	P
72	Yds Tweed @ Rs 2 8	180	0	0			
48	Yds Serge 5 0	240	0	0			
60	Yds Grey Flannel @ 3 12	225	0	0			
		645	0	0			
	Less 5% Trade Discount	32	4	0			
					612	12	0
	Packing and Forwarding Charges				7	8	0
					620	4	0

Per E I R Goods Train

E. & O E

Krishna & Co

Draft ~

Cawnpore

1st Jan, 1942



Rs 620 4 0

Two months after date pay to our order the sum of Rupees Six hundred and twenty, annas four only value received

Krishna & Co

To

Messrs Kapoor & Co  
Benares

Q 70 Messrs Tripathi & Co, of Bombay have sent the following goods to the Manager, Students Cooperative Stores, Chandausi —

12 Copies Elementary Book keeping by Sohan Lal @ 1 8

500 Exercise Books @ As 2 per book

100 Map Drawing Books @ As 4 per book

15 Model Exercises in Shorthand @ As 12 per copy

Packing and Forwarding charges Rs 12 8

Terms — 15% Trade Discount and 2½% within a month.

Prepare the invoice in proper form

### INVOICE

Ans

The Manager

Students Co operative Stores  
Chandausi

Bombay

29th April 1941

BOUGHT OF

TRIPATHI & Co

Terms 2½% within a month

		Rs	As	P	
12	Elementary Book keep ng by Sohan Lal @ Rs 1/8	18	0	0	
500	Exerc se Books As 2	62	8	0	
100	Map Draw ng Books @ 4 as	25	0	0	
15	Model Exerc ses 12 as	11	4	0	
		116	12	0	
	Less 15% Trade Discount	17	8	0	
					99 4 0
	Packing and Forward ng Charges				12 8 0
	Total Rs				111 12 0

E & O E

Tripathi & Co

### ACCOUNT SALES —

Q 71 On 5th Jan 1933, Mool Chand Ratan Chand of Delhi, Consigned per SS Rajputana 500 bags of oil seeds (each bag containing two cwt) to the Eastern Trading Company Ltd London

The consignee took delivery of the goods on the 10th Feb and in a week's time sold them as follows —

24 tons @ £ 9 15 per ton and the remainder at £ 10 1 6 per ton The London disbursements in connection with the consignment were — Fire insurance £ 1 5 0 Rent £ 2 10 0, Sundry Expenses £ 10 5 6 The consignees are entitled to a commission of 12½%

On 20th Feb an A/S was rendered and the net proceeds were remitted by a bank draft

You are required (a) to prepare the A/S in proper form (b) to make out the Bank draft and (c) to calculate the amount of the draft in rupees at 1 s 5 <sup>9</sup>/<sub>32</sub> d (1933 U P)

Ans (a) Account Sales

Account Sales of 500 bags of oilseeds received per S S Rajputana and sold on account and risk of Messrs Mool Chand Ratan Chand Delhi

		£	s	d	£	s	d
1-500	500 bags each containing 2 cwt oil seeds = 1000 cwts = 50 tons 24 tons @ £ 9 15 0 per ton 26 tons @ £ 10 1 6 per ton	234	0	0	495	19	0
	Less Expenses and commission—						
	Fire insurance	1	5	0			
	Rent	2	10	0			
	Sundry Expenses	10	5	6			
	Commission on £ 495 19 @ 12½%	62	0	0			
					76	0	6
	Net Proceeds				£ 419	18	0

E & O E.

London  
20th Feb 1933

For Eastern Trading Co Ltd,  
R Roxon  
Manager

(b) Bank Draft —

## IMPERIAL BANK OF INDIA

No 191

London

£ 419-18-6.

Feb. 10, 1933.

On demand of this First of Exchange (second of the same tenor and date unpaid) pay to the order of Messrs Mool Chand Ratan Chand the sum of pounds four hundred and nineteen, shillings eighteen and pence six only value received

To	For Imperial Bank of India,
Imperial Bank of India	S Smith,
Delhi	Manager

(c) Amount in terms of rupees at 1s 5<sup>29</sup>/<sub>32</sub>d  
Rs 5628—5—0 approximately

Q 72. Prepare an Account Sales for 100 bales of Cotton from Patel & Co, Bombay per S S Arabia' sold in Liverpool, Sydney Webb & Co @4½d per lb Gross weight 384 cwt Tare and draft 14 cwt The expenses incurred are freight ½d per lb on gross weight. Fire insurance on £ 850 @ ¾% Dock dues £8 15s Selling expenses £2 5s 6d Commission @ 2½%

How will the net proceeds be remitted to the consignors, and what would be the amount realized by them in rupees at the exchange rate of 1s 6d ?

( 1938 U P )

Ans Account Sales of 100 bales of cotton received per S S. Arabia and sold by the undersigned on account and risk of Messrs Patel & Co Bombay

	£, s d	£ s. d.
100 bales of cotton		
Gross weight 384 cwt		
Less Tare & draft 14 cwt		
Net weight 370 cwt=41440 lbs		
41440 lbs @ 4½d per lb		777 0
Less Expenses and Commission—		
Freight 4d per lb on Gross weight	89 12 0	
" 384 cwt=43008 lbs	4 5 0	
Fire insurance on £ 850 at 1%	8 15 0	
Dock dues	2 5 6	
Selling Expenses	19 8 6	124 6 0
Commission on £ 777 at 2½%		652 14 0

Liverpool  
29th Oct 1941

E & O E  
For Sydney Webb & Co,  
S Webb  
Managing Director.

How the net proceeds be remitted to the consignor —  
The agent can remit the net proceeds by means of a Bank Draft which is a B/E drawn by one bank upon another. The agent will deposit £652 14 0 with a bank and in exchange will get a Bank Draft which will be drawn in favour of Messrs Patel & Co, on the agent of the former bank in India. This draft will be sent to India to Messrs Patel & Co who on presentation will get the payment from the drawee bank.

Amount of the A/S in terms of rupees —  
Rs 8702 10 8

Q 73 On 10th Jan 1940 Peter White & Sons of Madras consigned 50 Barrels of Coffee per S S Malwa to James Wilson & Co, London to be sold on their account and risk. The following are the details regarding the shipment and the sale of the consignment—

Gross weight 96 cwt 2 qr 8 lb Tare 9 cwt 2 qr 12 lb  
Draft 2 cwt 1 qr 8 lb Sold at 68/ per cwt

**Charges.**—Entry, Dock and Town dues 13/ Marine Insurance on £ 350 at 10 % and stp Freight on 96 cwt 2 qr 8 lb at 47/6 per ton of 20 cwt Cartage and Portage £ 1. 3s 6d Fire Insurance 6/, Auction Expenses 8/4; Bank Commission and Interest on charges 9 , Commission and delcredere commission 2½%

On the 5th March 1940 an A/S was rendered and the proceeds were remitted by a Bank Draft

You are required (a) to prepare the A/S in proper form (b) to make out the Bank Draft and (c) to calculate the amount of the draft in rupees at the exchange rate of 1s 6d

### (a) ACCOUNT SALES.

Ans Account Sales of 50 barrels of coffee received per S S 'Malwa' from Madras and sold by the under signed for account and risk of Messrs Peter White & Sons

	cwt	qr	lb	£	s	d	£	s	d
Gross weight	96	2	8						
Less Tare	9	2	12						
Draft	2	1	8	11	3	20			
Nett weight	84	2	16				287	15	9
at 68s. per cwt									
Less Expenses and Commission -									
Entry dock and Town Dues				0	13	0			
Marine insurance on £350 at 10/ %				1	15	0			
Freight on Gross weight at 47/6				11	9	4			
Cartage and Portage				1	3	6			
Fire insurance				0	6	0			
Auction Expenses				0	8	4			
Bank commission and interest on charges				0	9	0			
Commission & Delcredere at 2½%				7	3	6	23	7	8
Net Proceeds							£264	8	1

E & O E

London  
March 5, 1940

For James Wilson & Co  
James Wilson  
Manager.

## b) BANK DRAFT.

National Bank of India Ltd

No 151  
£ 264 8 1London  
March 5 1940

On demand of this First of Exchange, (second of the same tenor and date unpaid) pay to Messrs Peter white & Sons or order the sum of pounds two hundred and sixty four, shillings eight and pence one only, value received

To	For National Bank of India Ltd ,
National Bank of India Ltd	S Smith
Madras	Manager.

(c) Amount of the draft in terms of rupees=  
Rs 3525 6 3 Approx.

Q. 74 Make out an A/S for 100 bales of wool from Trumper & Waddy, Sydney, per S. S 'Southern Cross' sold in London by Walter Smith & Co, at 6½d per lb. Gross weight 385 cwt, Tare and Draft 15 cwt, the charges 15 cwt The charges payable are - freight ½d per lb on gross weight and primage 5% Fire insurance £ 5 15d Dock dues £ 17 Sale expenses 31s 6d Commission 2½%. Due date, March 30th 1934

(1935 R B)

## ACCOUNT SALES

Ans Account Sales of 100 bales of wool received per S S Southern Cross and sold on behalf and risk of Messrs Trumper & Waddy. Sydnese



	£	s	d	£	s	d
100 bales wool —						
Gross weight 385 cwt						
Less Tare & Draft 15 cwt						
Net weight 370 cwt						
=41440 lbs at 6½ per lb				1122	6	8
Less charges —						
Freight	89	16	8			
5% Primage	4	9	10			
Fire insurance	5	15	0			
Dock dues	17	0	0			
Sale Expenses	1	11	6			
Commission 2½%	28	1	2	146	14	2
<i>Sum the</i>				975	12	6

London  
March 30 1934

E & O E  
For Walter Smith & Co.,  
W Smith  
Director

## EXPORT INVOICE

Q 75 Hazl Nur Ilahi & Sons Delhi placed an order for 1500 pieces porcelain ware with the Eastern Export Agency Ltd London, the payment for the goods to be made by a 60 days sight D/A bill. The goods were shipped to Bombay per S S Himahiya on the 6th Feb 1932 and the shipping documents were forwarded to Delhi through the National Bank of India Ltd. The particulars of the shipment are as follows:—

Three cases marked  
pieces porcelain ware,  
count at 1½ Packing  
carriage to port 2s 6d  
case, Freight at £ 3 10 0 per ton of 40 cubic feet plus 10%  
each case measuring 6' 6" × 4' 6" × 3' 6", Marine in-  
surance on £450 at 4s 3d % All these expenses were paid  
by the shippers

**H N E S**  
**Bombay**

each containing 500  
total £438 less dis-  
7s 6d each case,  
Dock charges 3s per

You are required (a) to prepare an invoice of the shipment (b) to give the documentary bill as drawn by the exporters and (c) to state the procedure the importers must follow (after the receipt of advice from London) in order to get the goods to Delhi.

( 1932 U. P )

(a) INVOICE

Ans Export invoice of 3 cases containing porcelain wares shipped by the undersigned per S S. Himaliya from London to Bombay by order and for account and risk of Messrs. Haji Nur Ilahi & Sons, Delhi.

H. N. E. S  
Bombay

1-3

3 Cases each containing 500 pieces porcelain  
wares  
Less Discount  $1\frac{1}{4}\%$   
Add charges —  
Packing @ 7s. 6d. each case  
Carriage to port  
Dock charges @ 3s. per case  
Freight for 3 cases each measuring  
 $6' - 6'' \times 4' - 6'' \times 3' - 6'' = \frac{2457}{8}$   
cubic feet at £3-10-0 per ton of  
40 cubic feet = £26-17-6  
Plus 10% = £2-13-9  
Insurance on £450 at 4s. 3d.%

£	s	d.	£	s.	d.
438	0	0			
6	11	5	431	8	7
1	2	6			
0	2	6			
0	9	0			
29	11	3			
0	19	2	32	4	5
			£463	13	0

London,  
Feb. 2, 1932

E & O E.  
For The Eastern Export Agency,  
J M. Rex,  
Secretary

## (b) DOCUMENTARY BILL

No 296

London  
Feb 6 1932

Stamp

Exchange for £ 463—13 0

Sixty days after sight of this First of Exchange (second and third of the same tenor and date unpaid) pay to the order of the National Bank of India Ltd the sum of pounds four hundred and sixty three thirteen shillings sterling value received against a consignment of 3 cases of porcelain wares marked

H N E S Bombay
-------------------

Shipping documents — Invoice, B/L and Insurance policy to be surrendered on Acceptance

For Eastern Export Agency

To J. M. Rex  
Messrs Haji Nur Elahi & Sons, Secretary  
Delhi

(c) Procedure to be followed by the importer to get the goods to Delhi — The importer after accepting the draft, will obtain the shipping documents which will be sent to a clearing agent in Bombay. The clearing agent will undergo the various formalities at the port. See answer to question no 62

**Q 76** On 10th Feb 1934 Douglas Fraser & Sons Ltd London, shipped the following goods per S S 'Demos to Bombay by order of Banshidhar Ramgopal General merchants Delhi —

Ten Cases marked B R each containing 500 pieces of Artificial Silk Trimmings (Sample no 87345) each piece of 8 yards at  $1\frac{1}{2}$  d per yard less  $12\frac{1}{2}\%$  The Charges in connection with the shipment were — Packing 7s 6d per case Carriage to port 12s, Dock charges 17s 6d B L etc 5s Freight at 20s per ton of 40 cubic feet plus 10, the measurements of each case being  $60 \times 42 \times 45$  Insurance on £250 at 5s % Commission at 5s %

A thirty days after sight D/A bill is drawn in duplicate for the amount of the invoice and the shipping documents are sent to Delhi through Eastern Bank Ltd You are required (a) to make out the invoice of the goods (b) to calculate in pence the price per yard C I F Bombay (c) to draft the second copy of the Bill  
(1934 U P)

**Ans** (a) Invoice of the goods

Export Invoice of 10 cases Containing Artificial Silk Trimmings (Sample no 87345) shipped by the undersigned per S S 'Demos from London to Bombay to the order and risk of Messrs Banshidhar Ramgopal, General merchants Delhi

Insurance effected here as per instructions		Indent No 206	
		£ s d	£ s d
10	<p>10 cases each containing 500 pieces of Artificial Silk Trimmings (Sample No 87345) each piece of 8 Yards = 40,000 yds @ 1½d per yard Less 12½</p> <p>Add charges — Packing at 7s 6d per case Carnage to port Dock charges B/L etc Freight for 10 cases each measuring 60 X 42" X 45" = 656½ cub feet 16-8-1½ 1-12-9½ Plus 10% Insurance on £250 @ 5s % Commission at 5% on £206 8-10</p>	<p>208 6 8 26 0 10</p> <p>3 15 6 0 12 0 0 17 6 0 5 0</p> <p>18 1 0 0 12 0</p>	<p>182 5 10</p> <p>24 3 0 £206 8 10 10 6 8 216 15 6</p>

  
 B R  
 Bombay  
 1-10

E & O E

For Douglas Fraser & Sons Ltd  
D Fraser,  
Manager

London  
Feb 10, 1934

1. Commission is to be calculated on the Total amount including expenses.

(b) C I F. (Cost, insurance and freight)—it signifies the price including insurance and freight, those being paid by the seller.

Therefore C. I. F. price per yard would be  
 $\text{£ } 216-15-6$  divided by 40000  
 $= 1 \frac{6037}{20000}$  per yard.

(c) Second copy of the Bill --

No. 14

London,

Feb. 10-1934.

Stamps

Exchange for  $\text{£ } 216-15-6$

Sixty days after sight of this Second of exchange (first and third of the same tenor and date unpaid) pay to the order of the Eastern Bank Ltd the sum of pounds two hundred and sixteen, fifteen shillings and six pence sterling, value received against a consignment of ten cases of Artificial Silk Trimmings (Sample No. 87345), marked



Shipping documents to be surrendered on Acceptance

For Douglas Fraser & Co. Ltd

D. Fraser

Manager

To

Banshidhar Ram Gopal,

General Merchants,

Delhi.

**Q 77** On 10th Jan 1937 Messrs Atkinson & Co., Manchester shipped the following goods per S S City of Lucknow to Bombay to the order of Messrs Bajnath Gangadhar, Cloth Merchants, Cawnpore

5 Cases marked B G each containing 75 pieces of shirting at 10s per piece of 40 yds The charges in connection with the shipment are —packing 10s per case carriage to port 12s, shipping charges 5s, freight 25s per ton of 40 cubic feet and 10% primage, postage and hill stamps 3s 6d Bill of Lading 2s 6d, Insurance £ 250 at 10s percent Commission £5 The measurements of the cases were  $4'0 \times 7'9 \times 3'0$

Make out the invoice in proper form and calculate the price in pence per yard C l F Bombay


Ans (a) Invoice

Export Invoice of 5 cases containing 375 pieces of shirtings shipped by the undersigned per S S 'City of Lucknow' from Liverpool to Bombay to the order and risk of Messrs Baj Nath Gangadhar, Cloth Merchants Cawnpore



Insurance effected here is per instructions

Indent No. 305

		£	s	d.	£	s	d.
5	 <p>           Cases each containing 75 pieces of shirtings            = 375 pieces at 10s per piece of 40 yds.            Add charges —            Packing of 5 cases at 10s. per case            Carriage to port            Shipping charges            Freight for 5 cases each measuring  <math>4' \times 2' - 9'' \times 3' = 33 \times 0 = 165</math> cub ft.            at 25s. per ton of 40 cub. ft.      5-3-2            Plus 10%      0-10-4            Postage and Bill stamp            B/L            Insurance on £250 at 10s %            Commission         </p>	2	10	0			
		0	12	0			
		0	5	0			
		5	13	6			
		0	3	6			
		0	2	6			
		1	5	0			
		5	0	0			
					15	11	6
					£203	1	6

E. &amp; O E.

Manchester,  
Jan. 10, 1937


Atkinson &amp; Sons.

(b) Price per yard C I F Bombay

£ 203-1-6 divided by  $375 \times 40 = 15000$  yds.

= 3  $\frac{623}{2500}$  pence per yard

Q 78 On 15th Jan 1939 Messrs Allen Bros & Co of Manchester, shipped the following goods per S S Light of Asia to the order of Messrs Himmatram Kirpashanker of Bombay —

Ten Cases marked  Bombay each containing 50 pieces of Grey Shirting at 12s per piece of 40 yds The charges in connection with the shipment are packing 5s per case, carriage to port 12s 6d Shipping charges 10s, Bills of Lading etc 3s 6d Each case measures 4'—6' x 3'—8'' x 3—4'' and freight is charged at the rate of 22s per ton of 40 cubic feet and 10% primage Insurance is to be effected on £350 at 5s per cent

A thirty days D/A bill is drawn in triplicate for the amount of the invoice and the shipping documents are sent to Bombay through the National Bank of India Ltd, Bombay

You are required (a) to make out the invoice for the goods and (b) to draft the first copy of the bill

(1939 U P)

### (a) EXPORT INVOICE

Ans Export Invoice of 10 Cases containing Grey Shirtings shipped by the undersigned per S S. 'Light of Asia' from Liverpool to Bombay, to the order and risk of Messrs Himmatram Kirpa Shanker, Bombay

Insurance effected here as per instructions Indent No 221.-



1-10

10 Cases each containing 50 pieces of Grey  
Shirtings—500 pieces at 12s per piece of  
40 yards

Add charges —

Packing of 10 cases at 5s per case

Carriage

Shipping charges

Bill of Lading etc

Treight on ten Cases each measuring

4'—6" x 3'—8" x 3'1" = 15 x 10

Cubic feet at 22s per ton of 40 cubic

feet—15 2 6

Plus 10 p c 1 10 3

Marine insurance on £350 at 5 p c

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

£ s d

Manchester  
Jan 15, 1939

L &amp; O L.

Allen Bros &amp; Co

(b) First Copy of the Bill

Manchester

No 102

15th Jan 1939

Stamp
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Exchange for 321-6-3

Thirty days after sight of this First of Exchange (Second and Third of the same tenor and date unpaid) pay to the order of the National Bank of India Ltd, the sum of pounds three hundred and twenty one shillings six and three pence only, value received against a Consignment of 10 Cases of Grey Shirtings

Shipping documents to be surrendered on Acceptance

For Allen Bros & Co  
A Allen  
Proprietor

To

Messrs Himmat Ram Kripa Shanker,  
Bombay

Q 79 Make out an invoice from the following particulars —

Sellers- Southey & Co, Sheffield Shipping Agents  
Cocks and Burrell Liverpool; Buyers—Sleaford and  
Co Durban One case, 3'—6" x 4'—9" x 3'—3" marked 'S & Co (in a triangle) 126 Durban' containing 6 Silver Flask 7" @ £1 8 6 each, 6 Solid Leather

Holster Cases large @ 13s each ; 6 dozen Silver Coffee Spoons No 8342 @ £2-18 6 per doz., 3 Mabogany Canteen Cabinet (105 pieces) at £4 12 0 each 1 doz 3 bottle E P N S , Lunch Crnets No 86, at 13s 6d each, 1 E P N.S. Siphon Stand No 21561 at £ 3 1 0 ; 1 After noon Tea Set Plain No K 146 at £2 15-0 less 15% Trade Discount , Charges , Freight £2-8-0 per ton of 40 cubic feet plus 10 p e prima, Carriage 8s 6d , Dock charges and B/L 4s ; Insurance 10% above invoice value at 10s 6d plus stamp per star of Africa (1941 U P )

### EXPORT INVOICE

Ans Export Invoice of one case containing the undermentioned articles sold by Southey and Co, Sheffield and shipped by the undersigned per S S 'Star of Africa' from Liverpool to Durban, to the order and risk of Messrs Sleaford & Co Durban

## INVOICES AND ACCOUNT SALES

1

Insurance effected here as per instructions.

Indent No. 412.

		£	s.	d.	£	s.	d.
6	Silver Flasks 7" at £1-8 6 each	8	11	0			
6	Solid Leather Holster Cases at 13s. each	3	18	0			
6	Dozen Silver Coffee spoons No 8342 at £2 18 6 per Doz	17	11	0			
3	Mahogany Canteen Cabinets 105 pieces at £4 12 0 each	13	16	0			
1	E P N.S. Siphon Stand No 21561 at £3 1	3	1	0			
1	Doz. 3 bottle E. P. N. S. Lunch Cruets No. 86 at 13s. 6d each	8	2	0			
1	Afternoon Tea set plain No. K. 146 at £2-15 0	2	15	0			
	Less 15 p c. Trade Discount	57	14	0	48	17	11
		8	16	1			
	Add charges						
	Freight on one case measuring 3'-6" X 1'-1" X 3'-3" = 8.32 C. F. at £2 8 0 per ton of 40 cub. feet 3 4 10	3	11	4			
	Plus 10% primage 0 6 6	0	8	6			
	Carriage	0	4	0			
	Dock charges and B/L				4	3	10
	Insurance on £53 1 9						
	plus 10% at 10s. 6d. %				53	1	9
	= £63-1-9 + 5-6-3 = 58-8-0						
	Approximately on £60				0	6	4
					53	8	1

T. Inverness

T. A. O. F.



Q 80. Make out a shipping invoice from the following particulars :—Consignors—Alfred & Co, Manchester. Consignees—Gopal Das Bros Bombay 10 cases each measuring  $3' \cdot 3'' \times 2' 9'' \times 3'$  marked  $\frac{G \triangle B}{D}$  Bombay 71/80 shipped per S S 'Arabia', Contents 60 pieces, Grey shirtings per case each 40 yds at  $3\frac{1}{2}d$  per yd Charges:—Packing 10s per case, Freight at 21s per ton (40 cubic feet) plus 10%, Shipping charges 21s B/L 6d, Insurance at 5s% on 10% above invoice value Date 1st Feb, 1934.

(1934 R B)


### SHIPPING INVOICE.

Ans. Export Invoice of 10 cases containing grey shirtings shipped by the undersigned per S S 'Arabia' from Manchester to Bombay to the order and risk of Messrs Gopal Das Bros. Bombay

Indent No. 130.

Insurance effected here as per instructions.

Insurance effected here at 4s per 1000 yds.

 Bombay 71/80	10	Cases each containing 60 pieces grey shirtings of 40 yds. each=24000 yds at 3½d. per yd.  Add charges — Packing of 10 cases at 10s. per case.  Freight for 10 cases each measuring 8'3" x 2'9" x 3' = 268½ cubic feet at 21s. per ton of 40 cubic feet=7 1 0 Plus 10%.  Shipping charges  B/L  Insurance on 338~16~7 plus 10% i.e. on £ 376 approximately at 5s.%	£. s. d.  5 0 0  7 15 1  1 1 0  0 0 6  
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Manchester  
Feb. 1-1934

Alfred &amp; Co.



Q 81 Make out an Export Invoice from the following particulars —

Consignors—Graham & Co, Manchester Consignees—  
Amrit Lal Thakor Karachi 10 Cases each measuring  
3'—4'×3 ×2' marked A△L Karachi 21'30 shipped  
per S S Indiana.

Contents—50 pieces Twill Pattern No 386 each case  
at 12s, 6d. per piece of 40 yards each


Charges—Packing 10s per case, Freight at 25s  
per steamer ton of 40 cubic feet plus 10%, Shipping  
charges 15s. B L 6d Insurance at  $\frac{1}{4}\%$  Date 3rd Jan  
1936

### EXPORT INVOICE

Ans. Export Invoice of 10 Cases of Twill Pattern  
No. 386 shipped by the undersigned per S S Indiana  
from Manchester to Karachi to the order and risk of  
Messrs Amrit Lal Thakor Karachi

Indent No 105.

Insurance effected here as per instructions

10		£. s. d.	£. s. d.
	Cases each containing 50 pieces of 40 yds pattern no. 386, 500 pieces at 12s. 6d. per piece		312 10 0
Karachi 21/30	Add charges — Packing of 10 cases at 10s per case Freight for 10 cases each measuring $4\frac{1}{4}' \times 3' \times 2' = 20 \times 10 = .00$ cubic feet at 25s per ton of 40 cubic feet $= £ 6-5-0$ Plus 10% $= 0-12-6$	5 0 0	
Shipping charges		6 17 6	
B/L		0 15 0	
Insurance on £ 325-3-0 plus 10% : e on £ 360 approximately at $\frac{1}{2}$ s %		0 0 6	12 13 0
E & O. E.		£	325 3 0
		£	0 12 0
			325 15 0

 Manchester  
 Jan. 3-1936

Graham &amp; Co.

**Q 82** Give an export invoice using imaginary particulars (1937 R B) (1938 R B)

**Ans** Refer to any of the preceding invoices

**Q 83** Make out a Loco invoice in a proper form for the following goods, supplied by Smith & Co Manchester at Liverpool per S S Oriental for Bombay by order and for account and risk of Seth Hira Chand Agarwal & Co Bombay

One case 50 pieces 27" Sicilians

30 pieces Black Serge 20/60½, 10/60 yards at 9d  
per yard

20 pieces Blue Serge 12/60 8/61 yards at 8d per  
yard

Packing 10s, Carriage to Liverpool 6s, Freight at 60s and 10% primage per ton of 40 cubic feet Case measuring 50 x 54 x 16 Dock charges 5s Insurance at 10s % for 10% over invoice value Commission 2½%. Distinctive marks on packages 'Diamond' Indent No 30 (1939 R B)

### LOCO INVOICE

**Ans** Loco invoice of one case containing 50 pieces 27" sicilians shipped by the undersigned per S S Oriental from Liverpool to Bombay to the order and on account and risk of Seth Hira Chand Agarwal & Co Bombay

Indent No 30

Insurance effected here as per instructions

Diamond

50

Pieces 27 Silans —  
 30 pieces Black Serge 20/60½, 10/60 yds =  
 1810 at 90, per yard  
 20 pieces Blue Serge 12/60, 8/61 yds =  
 1208 yds at 8d per yard

Add charges —

Packing

Carrage

Freight at 60s per ton of 40 cubic  
 feet for 50 X 54 X 16" = 25 cubic  
 feet = 1-17-6

11 is 10% 0-3-9

Dock charges

Insurance on £ 111-5-1 plus 10%

at 10s % = £ 125 approximately

Commiss on 2% on £ 111-17-7

67 17 6

40 5 4

0 10 0

0 6 0

2 1 3

0 5 0

3 2 3  
 111 5 1

0 12 6

111 17 7

2 4 9

114 2 4

£

E &amp; O L

Manchester  
 Date 18th Feb 1939

Smith &amp; Co

## CHAPTER VII

### INSURANCE.

**Q 84** Insurance is a contract of indemnity. Explain the meaning of this statement. Is it true of all classes of insurance? Fire insurance is a contract of indemnity and requires utmost good faith. Explain. (1937, U P., R. B.) (1931, R. B.)

Insurance is a contract of indemnity. It means that the insured cannot make any profit out of the occurrence of fire for he cannot recover more than the actual loss sustained by him.

In case of fire insurance and marine insurance, the insured cannot recover more than the value of the property destroyed by fire or lost by perils of sea. The insured is only to be placed by the insurer in the same position as he was before the occurrence of the loss. If a person insures his property for a value higher than its real value, then in case of loss he cannot recover more than the actual value of the property. Thus the observance of this principle prevents any fraudulent destruction of property by fire to a great extent.

This principle of indemnity is not applicable to Life insurance. Under Life assurance contract the insurer definitely undertakes to pay a fixed amount of money either at the death of the insured or after a fixed number of years. The insured is at liberty to insure his life to as many companies and for any amount he likes and in case of death, his representatives can recover the whole of the money due to various companies.

But in case of Fire and marine insurance if double insurance is effected, i.e. if the property is insured with more than one company and the total amount exceeds the actual value of the property the insured cannot recover in total more than the actual loss sustained by the insured

**Observance of utmost good faith—**

An insurance contract like other contracts must have an offer and acceptance. It has however two special features. Firstly the insured should have an insurable interest in the subject matter of insurance secondly they are said to be contracts *uberrimae fidei* i.e. the observance of utmost good faith. There must not be any misrepresentation, fraud or even a mistake. A full disclosure of all material facts must be made by the insured otherwise the underwriters will have the option of cancelling the contract.

**Q 85<sup>v</sup> Distinguish between double insurance and Re insurance**

A person insures his property worth Rs 40,000 against fire with A & Co for Rs 3,000. A little later he insures the same property with B & Co for a like amount, the policy issued by the company containing the 'Average clause'. Both the policies being in force the property is partially destroyed by fire and the damage is estimated at Rs 20,000. What is the total amount that the insured can recover (i) from A & Co (ii) from both the Companies

If the insured policy is sold, is the buyer entitled to the benefits under the policy of insurance

**Double insurance and reinsurance —**

If an insurance company has accepted a risk beyond its means, it can enter into contract with other insurance companies for the same risk. And this insuring of the whole or part of the risk with another company, is termed as Re insurance. Thus

Re-insurance is simply a means by which risks taken beyond ones capacity can be shared with other companies

Are-insurance contract does not affect the original insured but it forms a new contract between one insurance company and another and insured can recover his money from the company with whom he originally insured the property and not from the re-insuring company. This applies to all forms of insurance contract

### Double-insurance —

When an insured effects more than one insurance on the same adventure or interest it is called double insurance. In Life insurance the insured can recover the value of all the policies but in case of fire and marine, as these are contracts of indemnity only, the insured cannot recover more than the value of actual loss sustained by him. Thus if the total amount of all the policies exceed the actual value of the property, the insured can recover only the actual value of the property lost. And all the insurers are legally liable to contribute rateably their proportionate parts towards the payment of the risk to the insured. If any insurer pays more than his shares, he is entitled to get contributions from other insurers.

In the question it is a case of double-insurance and the policy is subject to *Average clause*—which means that in case of under insurance, (i.e. insurance for an amount below the actual value of the property), the insurance company shall make a corresponding under payment of the loss

Here the property is worth Rs 40,000 but it has been insured for Rs 30,000 with two companies.

In the first case, as the property has been insured to the extent of the 75% of the actual value of property and thus the insured can recover only 75% of the Loss, because for the remaining 25% he will be supposed to be his own insurer. Here the loss amounts

to Rs 20,000, and the insured can recover only  $\frac{20,000 \times 3}{4} = \text{Rs } 15,000$  only

Secondly though the property is insured with two companies, but the insured cannot recover more than actual loss sustained by him as Fire insurance is a contract of indemnity. Thus the insured, in toto, can recover only Rs 15 000

He can recover Rs 15,000 either from A Co or from B Co and each company is entitled to contribute rateably i.e. equally as they have undertaken risks of the equal amount

Thus the insured can demand from A Co any amount upto Rs 15000 and if A Co pay more than his share viz Rs 7,500, he is entitled to recover the extra paid by him from B Co

*From both the companies, the insured can only recover Rs 15000 in all and not more*

*If the insured property is sold —*

A fire insurance contract is a personal contract between the insured and the insurer, a fire policy cannot be assigned without the consent of the insurer. Thus if the property is sold the sale does not automatically transfer the benefit of insurance also. But if the transfer is made with the consent of the insurer, the buyer gets right to recover the money

But by sec 49 of the Transfer of Property Act, the transfer of any immoveable property entitles the transferee to recover the amount, in case of loss by fire, which the transferor is entitled to receive from the insurance company.

**Q 86** You have decided to assure your life for Rs 10,000. Trace the various steps you would take to obtain the Policy (1936 U P)

**Ans** The person desiring to effect an insurance upon his life will be required first to fill up a proposal form. This proposal form is an important



document as on its information the contract between the assured and the insurance company will be based. This proposal form contains a number of questions concerning the age health past history of the family of the assured his mode of life etc. These questions must be answered in absolute good faith because any wrong statement made by the proposer would render the contract voidable at the option of the insurance company.

Then the proposer would be required to undergo a medical examination. On receipt of the favourable information from the doctor the company would consider the proposal and would quote the premium to be paid by the proposer. In case of extra hazardous or underaverage lives such as those of people suffering from certain diseases an extra premium is charged. This is termed as Loading the premium. When the first premium is paid by the proposer the contract would be complete and the risk commences.

Afterwards the company would issue a policy which is a stamped document containing the terms of contract. It is signed by the two directors and countersigned by the manager.

Then the insured will be asked to submit a proof of his age if it has not been proved in the beginning. This proof of age may be a copy of the horoscope or of the register of births in Municipal Offices or otherwise. When the certificate proving the age is accepted, the insured should ask for a certificate of admission of proof of age so that his legal heirs may not be required to prove it in the event of his death.

**Q 87** ✓ What do you understand by Insurable Interest in connection with life fire and marine insurance? Must the insurable interest exist at the time the insurance is effected or at the time the loss or damage occurs?

What is the effect of an average clause in a fire policy  
(1936 R B) (1938 U P)

Ans Insurance contracts like ordinary contracts

must have (i) offer and acceptance (ii) competent parties (iii) Lawful object (iv) free consent etc. But besides these an insurance contract must possess two more features

1 Insurable interest and 2 *Uberrimae fidei* i.e. observance of utmost good faith

Insurable interest forms the very basis of the insurance contract. It means that insured should possess such an interest in the subject matter of the policy that he would benefit by the safety of the subject matter insured and suffer a pecuniary loss in the event of its being destroyed or damaged.

In case of *life insurance* a person can insure his life for any amount as he is supposed to have an unlimited interest in his own life. Besides the following persons also possess an insurable life interest —

1 A surety to a loan transaction in the life of the person for whom he stands as surety but only to the extent of the amount of loan

2 A partner in the life of another partner

3 Parent in the life of child if they are dependent on him

4 A husband in the life of his wife or vice versa

5 A child in the life of his parent, if he is supported by them

**In Case of Fire insurance —**

Like other insurance contracts in fire insurance too the insured must have an insurable interest in the property insured. Here insurable interest, generally speaking amounts to 'any existing right in the property'. The followings are some examples of it

(1) An owner in his own goods

(2) An agent in the goods of the principal

(3) A trustee in the property he holds for trust

(4) A common carrier in the things which have come in his possession in the ordinary course of his trade

(5) An insurance company in the property insured by it and thus can reinsure it

(6) A mortgagee in the property mortgaged

In Marine insurance —

The following are examples of persons who possess an insurable interest —

- 1 Shipowner and owners of goods
- 2 An insurer may reinsure to the extent of his liability
- 3 A mortgagee to the extent of the sum due to him
- 4 Persons entitled to receive freight
- 5 The master and crew for their wages
- 6 Lender of money on bottomry and respondentia

When the insurable interest should exist :—

Insurable interest (1) in case of life insurance must exist at the time of the completion of the policy

(2) In marine insurance at the time the loss takes place

(3) In case of fire insurance it must exist both at the time the insurance contract is completed as well as when the loss takes place

Effect of Average Clause in a Fire Policy :—

In a non average policy the insurer is liable for the full loss not exceeding the sum assured. But if a policy is subject to an average clause, a pro rate contribution is only paid and the insured is supposed to be his own insurer to the extent of the property underinsured : *e.g.* the insurer bears only a rateable portion of the loss *e.g.* if he insures for Rs 5000, the property whose value is Rs 20 000. This means that he insures only for  $\frac{1}{4}$  of the value of the property. In the event of loss, the assured can only recover a rateable proportion of the loss : *e.g.* he can only receive in this case  $\frac{1}{4}$  of the loss and  $\frac{3}{4}$  of it will be borne by the insured himself. If the property is destroyed to the extent of Rs 5000, he can recover

only  $\frac{1}{4}$  of 5000 = Rs 1,250 and he would himself bear the balance of the loss viz Rs 3,750

The average clause is ineffective when the insured has insured the property for the full value. Hence it is evident that the average clause penalizes under-insurance and the insured is supposed to be his own insurer for the rest of the amount.

## FIRE INSURANCE

**Q 88** What steps would you take to get your house property insured against fire? What is the effect of an average clause in a fire policy?

(1932 U, P) (1934 R B)

To insure one's property against fire, the first thing to be done would be the filling of a Proposal form which will form the basis of the insurance contract. In it all the information must be correctly stated and all material facts should be disclosed in utmost good faith. When the proposal has been considered, the company will fix the premium. In case of fire insurance the premium cannot be fixed with mathematical precision as in case of life insurance but its fixation is a complicated affair and depends on variety of circumstances.

Then the proposer will be required to pay the premium. When the premium has been paid, the company will issue a stamped 'Cover note' which protects the insured, till the policy is issued.

In common and simple cases such as proposals for insurance of dwelling houses or goods warehoused in a well known and safe place, the company may quote the premium at once and the policy is issued as soon as the premium is paid. But in other cases, specially when the location of the properties is not at an admittedly safe place, the risk to be undertaken is first investigated by surveyors appointed by the company and on consideration of the report of the surveyor, the rate of the premium is fixed, or the

proposal is rejected When accepted, a policy is issued on receipt of the premium charged Effect of Average clause See question No 87

**Q 89** Name and explain different types of policies that are generally issued by fire insurance offices.  
(1939 U P.)

**Ans** The followings are the various kinds of policies generally issued by Fire Insurance Offices —

**1. Valued Policy —**

In valued policies the value of the property as agreed by the insurance company is stated and in the event of loss, the insured is not required to prove the value of the lost property Such policies are generally effected in cases where it is difficult to estimate the value of the lost property

In such policies, in case of total loss, the company pays the total admitted value irrespective of the market value of the property

These policies, however, provide for the revaluation of the properties according to market appreciation or depreciation from time to time.

**2 Floating Policy :—**

Such policies are taken out on the goods of a 'fluctuating character' : *e* some of them may be removed any day and replaced by another under it the property insured is situated in different places

Such policies are generally taken in case of goods lying at the dock and other warehouse, pending removal by ships outwards

**3 Specific Policy :—**

A policy may be taken for a specific sum payable to the policy holder in case the loss by fire reaches that amount no matter what the actual market value of the property insured is *e. g* if a person takes a policy for Rs 4,000 on properties worth Rs 16,000, and the damage done by fire is estimated to be

Rs. 4 000, he gets Rs. 4,000 inspite of the fact that he insured for only  $\frac{1}{4}$  of the value. Had the damage been less than Rs. 4,000, he would have recovered an amount equal to damage. Had the damage been for more than Rs. 4 000, the policy holder could have necessarily recovered Rs. 4 000 only and not more.

It will be noticed that in such policies 'average clause' is not applicable and thus underinsurance is not penalized.

#### 4 All in Policy —

Some fire offices issue policies to householders giving protection not only against the risk of fire but combining with it the risk against burglary, theft, damage from causes other than fire etc. These policies are also termed as 'Comprehensive Household Policies'.

#### 5 Average Policy :—

A policy containing 'an Average clause' is termed an 'Average Policy'. In such cases the insured bears a rateable portion of the loss i.e. if he insured for Rs. 4 000 the property whose value is Rs. 16 000, this means that he has insured for only  $\frac{1}{4}$  of the value, and in the case of loss or damage by fire say to the extent of Rs. 4 000 he will get from the company only  $\frac{1}{4}$  of the loss i.e. Rs. 1 000. The balance of the loss viz. 3,000 being borne by the insured.

This average clause is ineffective when the insured has insured the property for the full value. Hence it is evident that the average clause penalizes underinsurance and the insured is supposed to be his own insurer for the rest of the amount.

**Q 90.** What are the obligations to be fulfilled by a person who insures his property against fire to enable him to make a valid claim (1938,39 R B)

**Ans.** The insured is required to act in the following way to enable him to make a valid claim—

As the fire insurance contract is a contract of

indemnity and of good faith the insured while taking the policy must describe the property correctly and should not misrepresent or omit any material facts. If he has misrepresented the policy would be voidable at the option of the insurance company.

Then he should very carefully go through the contents of the policy and should act accordingly, for instance any change in the risk must be notified to the company and the assent of the company must be obtained in writing.

In case of outbreak of fire, he must communicate the fact immediately to the company and he should also send a full statement of the loss or damage with particulars of the property lost or damaged and their market value. All this must be supported by such documents as are available. If the company so requires an affidavit in support of the statement should also be sent.

Then the company, if it so likes would inspect the loss and its authorized agent has the right of entry into the buildings. Thus the insured must allow the inspector to inspect the property. Besides he must have due care and must have adopted effective means to protect the property insured from loss or damage when the company is satisfied about it the actual loss sustained is ascertained with the help of assessors, valuers and surveyors and paid to the insured.

In case the parties do not come to any settlement, the whole matter may be referred to arbitration or the insured may reinstate the property.

More than one fire —

Here it must be noted that if more than one fire occurs in respect of the same insured property during the course of a single year the insured cannot recover in the aggregate more than actual amount of the policy *e.g.* if a policy is taken for Rs 6000 and the property is destroyed and loss is estimated to be

Rs 2500 and paid. Then another time if the property is again destroyed the insured can recover only the balance viz (6000—2500 3500) and not more unless after the first fire the risk was fully covered by paying an extra or additional premium.

Q<sup>✓</sup> 91 Explain the meaning of the following terms —

Insurable interest (1940 U P, 1939 R B), Surrender Value, Subrogation (1940) Salvage (1939 R B) Re Instatement clause

Insurable Interest —

Ans See Q No 87

Surrender Value —

The surrender Value of a policy is the amount of money, which the insurer is prepared to pay to the assured if the policy is surrendered or abandoned. Generally in the first two or three years the company does not allow any surrender value and the surrender value increases with the duration of the policy and the number of premiums paid. Thus the older the policy, the higher is the proportion of the surrender value.

Subrogation —

Subrogation is the clause which forms part of the fire and marine policies. But if the insurer steps in the shoes of the insured on payment of the compensation to him i.e. the insurer is entitled to all the rights and remedies of the property destroyed where he had made good the loss.

For example if the house insured is destroyed by fire set by somebody the insured will receive the payment from the insurance company and after the payment the insurance company will have all the rights of the insured i.e. it can sue upon the third party through whose fault the property was destroyed. But the insurance company must sue in the



name of the assured The insured is bound to give all facilities to the insurer in such recovery

**Salvage —**

This is the reward or compensation paid by a ship owner to a salvour for saving or helping to save property and life at sea The term is also used for the property saved

**Re instatement clause —**

Instead of making a cash payment, the insurer has the option to discharge his liability by reinstating or replacing the subject matter of insurance

This reinstatement clause is very useful where the insurer and insured do not agree about the value of the goods destroyed for in that case the insurer can replace the goods by similar ones

**Q 92** What are the provisions about payment by the underwriters (1) When there are more than one fire in respect of the same insured property during the insurance period and 2) When there are more than one policy in existence for the same risk

**More than one fire —**

**Ans** See Q 90 Last paragraph

**More than one policy —**

**Ans** It is a case of Double insurance (See Q 85 Double insurance)

**Q 93** What is the law regarding the assignment of a fire Policy?

**Ans** Unlike a life policy a fire policy cannot be assigned without the consent of the insurers But when the insured property changes hands by will or through the operation of law the policy on it, while remaining in force automatically passes to the legal owner of the same

In case of fire insurance, the insurable interest

must exist both at the time when insurance is effected as well as at the time when fire occurs. The assignee cannot acquire insurable interest unless there is a contract between him and the company. If the company does not accept this change both the assignor and the assignee lose their claim on the company, because the former has transferred his interest by assignment and the latter not acquiring it because of lack of contract between him and the company. This means that a fire policy can only be assigned with the consent of the insurers.

### MARINE INSURANCE

**Q 94** Certain goods are shipped from Bombay to London and are duly insured. Explain the nature of the losses for which the shipping company and insurance company are respectively liable under the B/L and the insurance policy. Are there any losses which the owner will have to bear inspite of the goods being insured?

(1940 U P)

**Ans** When goods are sent through sea a B L is issued which contains the terms of the contract with the shipper and serves the purpose of the receipt for the goods supplied.

There are certain responsibilities of the ship owner in respect of goods consigned by the shipper under the B L but they of course do not cover risks on account of any acts of God perils of sea fire on board etc and the insurers liability begins where that of the ship owner ends under the contract.

*Nature of losses for which shipping company is liable —*

A shipping company has the responsibility to provide a sea worthy ship. Thus for any loss arising because of un worthy condition of the ship or because of the negligence of its captain or other employees the shipping company would be held responsible. The shipping company must take proper care to

protect the goods from risks arising out of ordinary weather conditions such as rain, storm etc. Then again if the goods are destroyed knowingly by the employees of the company, the company will be held responsible.

*Nature of losses for which insurance company is responsible —*

The insurance company is responsible for losses for which shipping company is not responsible which are recorded in the 'excepted perils clause'.

A shipping company is generally liable for the following kinds of losses:

- (a) Perils of sea—this includes the ordinary perils of sea e.g. stranding, loss by collision
- (b) Loss by fire
- (c) Loss due to pirates, rovers, thieves
- (d) War captures, seizures, restraints and detentions by princes and peoples
- (e) Jettison—it means throwing the goods overboard with a view to lighten the ship
- (f) Barratry of the master and crew

It must be noted that in special circumstances one or two of the above clauses may be deleted e.g. in war times the insurance companies do not take risks of capture and seizure.

*Losses to be borne by the insured —*

The insured is required to bear all losses for perils not covered by either a B/L or an insurance policy. These losses may, however, be included in the policy by the payment of a higher premium.

**Q 95** How is the contract of marine insurance effected on Lloyds? (1939 U P)

Lloyds may be regarded as an exchange where the individual insurers and the individual underwriters meet for the purpose of transacting business. It is a sort of association where risks are not accepted by

individual members according to their individual capacity.

*Method of transacting business —*

Business on Lloyds is transacted through recognized brokers. Any party wishing to insure has to approach one of the brokers with his proposal. The broker will quote his rate of premium and if it is accepted he will draw up a memorandum called 'slip'. He will then approach the individual underwriters with the slip and will enquire from them how much risk each of them is willing to undertake. The slip would be signed by various underwriters who agree to accept the risk. In this way the broker would go from one underwriter to another until the whole risk has been distributed by its acceptance by several underwriters. When the slip is thus fully underwritten the broker prepares a policy on Lloyds form and gets it signed by the underwriters for their respective amounts. He then on receipt of the premium from the proponent, will hand over the policy to him.

The 'slip' gives protection to the insured before the issue of policy. It, however, is a document of honour and is not enforceable by Law.

It is evident that under Lloyds policy, the risk is distributed among several members of Lloyds and each of them is called upon to pay according to the amount of risk undertaken by him.

Another method of transacting business is sometimes followed under which the proponent sends the details of the risk, by a letter and the underwriter replies by issuing a 'covering note'. This correspondence takes the place of 'slip' and is similarly dealt with.

**Q 96** Explain the difference between a 'General Average' and 'Particular Average' and indicate the circumstances in which each is applicable.

(1930, 32, 37, U. P.)

*General Average —*

Any amount of loss or damage voluntarily and reasonably suffered with a view of protecting all the interests imperilled in the common adventure : *e* interest on ship, cargo and freight, is termed as General Average.

A general average may be occasioned *e g* by water used to extinguish fire, loss of jettison : *e* throwing a part of the shipment or cargo overboard to lighten the ship or burning cargo to provide fuel. The underlying idea is this that the loss must be caused for the protection of the common interest of all the parties.

The circumstances under which general average is applicable are as follows—

(i) When the expenditure incurred or the sacrifice made is for the common safety of the vessel, freight and cargo

(ii) the loss must be intentional and voluntary and not accidental

(iii) the expenditure incurred must be reasonable

(iv) the common danger must not arise through the default of any of the parties whose interest has been sacrificed

Where there is a general average loss the party on whom it falls is entitled to a rateable contribution from the other parties interested and such contribution is called a general average contribution.

*Particular average loss —*

‘A particular average is a partial loss of the subject matter insured caused by a peril insured against and which is not a general average loss.’

*Difference between the two —*

(a) A General Average loss is occasioned for the benefit of all the parties, while a particular average loss arises not for the benefit of any party

(2) A particular average loss arises accidentally by which a part of the property is destroyed while a General Average arises not accidentally but voluntarily and reasonably

(3) The General Average loss is borne by all the parties whose interests have been protected while a Particular Average loss cannot be partially shifted to others and must be borne by the person directly affected or by his underwriters

**Q 96** A merchant has insured goods worth Rs 1000 for Rs 800 under a marine policy. What amount of compensation can he recover in the event of (a) Total Loss (b) Loss of half of the goods

**Ans** A contract of marine insurance like fire insurance contract is a contract of indemnity and as such the insured can in no case recover more than the loss sustained. But in a case of total loss no amount more than the insured value or insurable value is recoverable. *If the property is underinsured then the insured can recover upto the amount of insurance.* As such if the goods worth Rs 1000 have been insured for Rs 800 the insured can recover only Rs. 800 and not more in case of total loss.

Where half of the goods are destroyed — In that case the amount which can be recovered would be only Rs. 400 i.e. half of the value for which the goods have been insured as in this case the *value insured for will be taken as the basis for settlement of the value of loss*

**Q 97** Explain Particular Average as used in marine insurance and draw up a statement of particular average from the following particulars —

Value of goods if arrived in a sound condition	Rs 3 000
Value of goods in a damaged condition	" 2 000
Insured value	" 3,300
Survey Expenses	" 40

**Particular Average —**

When a ship or the cargo is damaged or the freight is partially lost through any peril insured against such damage or loss is a Particular Average on the ship cargo or the freight as the case may be. This damage or loss must not be occasioned for the benefits of all the parties and should be contained through accident storm fire, collision etc. For further explanation see Q 95

**Statement of Particular Average**

	Rs   a   p	Rs   a   p
Insured value of the goods	3 300   0   0	
Value of the goods if arrived in sound condition	3 000   0   0	
Value of the goods in their damage condition	2 000   0   0	
Damage	1 000   0   0	
Therefore damage on Rs 3 300 the insured value =		
$\frac{1\,000}{3\,000} \times 3\,300$		1 100   0   0
Add —		
Survey Expenses		40   0   0
Claim		1 140   0   0

**Q 98** What do you understand by the doctrine of subrogation? In a marine insurance policy goods are insured 'Lost and not lost'. How do you reconcile the effect of these words with the rule that the assured must have insurable interest in the goods before the loss occurs. (1940 R B)

**Doctrine of subrogation —**

See Q No 90

**Lost or not lost clause —** Sometimes insurance is effected on the ship and goods at the time when they are on sea and none of the parties know whether the

ship is safe or lost. This clause provides that the insurer would indemnify the insured in the event of the property being lost, though it might be discovered that the loss had occurred before the insurance was effected provided the insured was not aware of the loss when he effected the insurance. On the other hand if the insurer knows at the time of insurance that the ship or the subject matter has safely arrived, he will have to return the premium to the insured as there was no risk to undertake.

This clause can be reconciled with the rule that the insured must have an insurable interest in the subject matter when the loss takes place in the following manner.

Under this clause the insurance is effected on the understanding that neither the insured nor the insurer is aware whether the goods are safe or are lost that means that it is understood that the goods are safe and the insured has insurable interest in the subject matter of insurance.

Q 99<sup>✓</sup> What risks are usually covered by a policy of marine insurance (1938 R. B.)

Ans. When goods are sent through sea, they are exposed to many risks. For certain risks the ship owners are responsible and as such they are required to provide a sea worthy ship. Where the responsibility of a ship owner ends that of the insurer begins. In every B/L or charter party, there is found a long list of sea perils for which the shipowner is not responsible. These are called "Excepted Perils". It is for these 'excepted perils' that the insurance companies are responsible. Some of the risks covered by a marine policy are foundering, stranding, loss by collision with another vessel, damage by sea water, storms etc.

A Lloyds policy besides the ordinary perils of sea, also covers loss by fire, pirates and thieves, arrests, restraints by kings.



Jettison : *e* throwing the cargo overboard to lighten the ship and Barratry : *e* every wrongful act wilfully committed by the master or crew to the prejudice of the owners of ship or cargo are also included in a marine policy

A marine policy also covers risks relating to particular and General Averages. A general average loss is occasioned wilfully for the safety of common adventure. But a particular average is a partial loss caused by a peril insured against.

In a Lloyd's policy a memorandum clause is generally inserted which saves the insurer from a crop of small claims. This clause signifies that (1) on certain perishable *e.g.* corn, fish, salt, flour etc. the insurers are not liable for partial losses at all (2) in case of less perishable commodities the insurers are not liable for partial loss unless the damage caused comes at least 5% of the value of the damaged goods (3) on other losses the insurer is not liable below 3%.

Q 100 Explain the followings — F G A, *causa proxima* C I F, Lost or not lost clause, whole life policy and endowment policy F P A, salvage, constructive total loss. Memorandum clause Particular Average, General Average Jettison, Charter Party, Bottomry P P 1

F G A — It is an abbreviation of Foreign General Average.

The General Average statements are prepared in accordance with the law of the port of destination or the law of intermediate port where the voyage is broken. If this clause is inserted it implies that the insurers and insured both agree that in the event of general average claim the average statement made in a foreign country according to the law of that country shall be taken as the basis of settlement.

Causa Proxima — According to this clause, the law of proximate cause is applied in determining the liability of insurers. It means that when there are more than one cause for the loss or damage the pro

ximate cause and not the remote cause is regarded as the peril to which it is due

In order therefore to make the underwriters liable, the peril insured against must be the proximate cause of the loss and it must not be due to the fault or misconduct of the insured. If the loss is the result of two causes, it is necessary that the nearer cause must be the peril insured against, in order to make the underwriters responsible

Suppose a shipment of mangoes is insured against loss through agrounding of the vessel. The vessel is agrounded and the mangoes are reloaded into another vessel, for which much handling becomes necessary and as a result the mangoes are materially damaged. Now handling and reloading which are the proximate cause of the damage are not the perils insured against, hence the underwriters are not liable to pay for the damage though this handling and reloading would not have been necessary but for the agrounding a peril insured against which was the distant cause of the loss.

#### C I F. :—

This means that the price that quoted includes the cost insurance and freight and these charges viz. for insurance and freight will be paid by the seller

#### Whole life Policy and Endowment policy :—

In a whole life policy, the insurance compaines undertakes to pay the amount of the policy on the death of the assured only. Premium in such cases are generally payable until death occurs. But if the premium is paid in one instalment, it is termed, as 'Single premium policy' while if premiums are paid for number of years, it will termed as 'whole life with limited payments policy'.

#### Endowment Policy :—

Under this policy, the amount of the policy is to be paid at the end of a specified period or on death if death takes place earlier.

This policy contains both the elements of protection and provision for old age and thus the premium is higher than that of whole life policy

Then an endowment policy may be (1) Single endowment Policy—Where only the sum assured shall be paid

(2) Double endowment policy—Where double the amount assured shall be paid provided the assured attains the specified age

*F P A Free of Particular Average —*

By this clause the underwriters are exempted from all liabilities in respect of a partial loss unless a loss has occurred by a general average sacrifice

*Salvage —*

Under maritime law a reward is payable to a party not interested in the adventure who saves or helps in saving property at sea. He is called a salver and the reward paid to him is called salvage. Salvage is also used for the interest saved. The salver can claim a reward only when his services are successful either wholly or partially.

The Salver can act on his own initiative even without the knowledge of the assured.

*Constructive Total Loss —*

In a constructive Total Loss the subject matter of insurance is not actually lost but (1) is either reasonably abandoned when its actual total loss is unavoidable (2) or is damaged to such an extent that if it is repaired, the cost of repairing or recovering exceeds its value when recovered.

For example a vessel is stranded and the cost of repair and of getting her off the rack into a port is estimated to be Rs 26 000. While the value of the ship when repaired is estimated to be Rs 26 000 or less. It would be a case of constructive Total loss. But this value of the ship must be the insured value e.g. if the value in the above case for which it is insured.

is Rs 27,000, then it will not be case of constructive Total Loss

This can be made very clear by the following example—

If a rupee has fallen into a river and the cost of taking it out amounts to Re 1/- or more it will be a case of Total Loss because what is the use of labouring when the cost of the thing taken out is the same as the expenditure in taking out. Similar losses in marine insurance are termed as constructive Total Losses

*Jettison —*

Phillips defines it as “the throwing of over board a part of the cargo, or any article on board a ship or cutting down masts or other furniture for the purpose of lightening or relieving the ship in case of necessity or emergency”

In brief the action of throwing a part of the cargo overboard, to lighten it and thus to avert a danger is termed as jettisoning

Here it must be remembered that if the cargo is thrown overboard for its ‘inherent vice’ e.g. if the consignment of fruits is rotten, it will not be jettisoning

*Charter Party —*

When any contract is made for carriage of goods by sea, it is called a contract of Affraightment

If the whole ship is hired the contract is by a Charter Party while in case where only certain consignment is to be sent, it is by means of B/L

*Bottomry —*

Before the introduction of modern facilities of communication, the master of the ship often raised a loan by pawning the ship and the cargo or the cargo only in favour of the tender. The money borrowed by pawning the ship and cargo both is termed Bottomry

while where only cargo is pawned, it is termed as Respondentia

Under such loans the stipulation is that the amount advanced will be returned with interest *after the arrival of the ship at her destination*. As the repayable is conditional on the arrival of the ship and/or cargo the lender loses his money in the event of ship being lost. Such loans are now out of date due to facilities of remittance by Telegraphic Transfers

P P I —

Policy Proof of Interest —It is a term used for wager policy policies having no insurable interest. Such a policy is of no legal effect but an insurer who has agreed to become a party to it would not generally fail out of honour to meet his obligation under it provided the true nature of the transaction has been explained to him

W P A —

It is an abbreviation for 'With Particular Average'. It means that the insurer is liable for partial loss as well.

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## CHAPTER VIII

### OFFICE ROUTINE

(Filing, Copying and Multiplying)

**Q 101** Sketch in Broad outline how would you organise the filing arrangement of both inward and outward correspondence in a large business house (1937,41 U P)

**Ans** The various methods of filing viz Pigeon hole method box files and flat files are very old and less efficient and thus not suitable for a large business. The best system of filing for a large house would be the vertical filing system. This system removes the defect of old irksome systems.

**Cabinet and the Folder** — Under vertical system of filing a cabinet with a required number of drawers is needed. The number of drawers depends upon the size of the correspondence. The drawers are so deep that the correspondence may be kept in an upright position. The basis of the system is the Folder which is made of a sheet of Manila Paper. One edge of the folder is little higher than the other. One customer is allotted a folder and on the projecting edge of the folder the name of the correspondent or number is written. All the letters to and from the correspondent are filed in the folder in chronological or other suitable order. These folders are arranged vertically in the drawers. In order to divide the drawer into convenient sections Guide cards are inserted at the appropriate points.

**Arrangement of the folders** —

The folders may be arranged either alphabetically

numerically or geographically

- (i) Alphabetically—i.e. according to the first letter in the words. Then under each letter there may be further division into vowels; i.e. the document is filed under its initial and under the first vowel in the name e.g. Allan is filed under Aa and so on.

This classification is more suitable for private correspondence or where not more than say, five or six hundred correspondents are involved.

But for a large house numerical arrangement as described below is needed.

- (ii) Numerically—Under it each folder is given a distinct number and filed in rotation. A card index is kept to control the folders because when folders are arranged on a numerical basis we have to first find out the number of the correspondent before we can trace his folder. This number can be found out by means of a card index, which consists of a number of cards arranged in a drawer alphabetically. One customer is allotted a card on which his name, address, number and certain other informations like Ledger folio etc. appear. With the help of this index the folder of a customer in the cabinet can be traced and papers can be filed.
- (iii) Geographically—This arrangement is suitable for a concern which has business all over the world. Herein the folders are arranged according to provinces, countries or continents and may be subdivided according to towns.

It is clear therefore, that the system of vertical filing is orderly and that any folder or any letter in a folder can be removed without disturbing the remainder. Reference is made easy due to 'guide cards' and the projecting edges of the folder. Compared with press-copy system which involved hunting through copy books and inward letter files, with correspondingly harassing effects and loss of continuity, there is

saving of time and effort Each folder separates its contents from all other papers and as many as 250 folders can be stored in a single drawer of the standard size

**Q 102** What system of filing and indexing of letters would you introduce in a business office accustomed to heavy correspondence Discuss it fully (1939 R B)

**Ans** As the business office handles a heavy correspondence vertical filing supplemented by card indexing would be the most suitable for introduction

For description of the system see question No 101

**Q 103** You are in charge of the correspondence department of a big business house run on modern lines Your office handles several hundred letters per day Show briefly how would you run your department (1935 U P 1940 U P)

**Ans** As the correspondence department handles several hundred letters per day vertical system of filing supplemented by Card Indexing would be most suitable The folders would be arranged in numerical order and whenever any folder is needed reference will be obtained from Card Index

See answer to question No 101

**Q 104** Describe briefly the distinctive features of the Horizontal and Vertical filing systems Under what circumstances you would prefer one to the other (1940 U P)

**Ans.** Horizontal filing its chief features —

(i) Within horizontal file the letters are placed in a horizontal or flat position one upon the other Such a file may take the form of a bound book hanging on the wall or standing on end on a shelf or may be in the shape of a drawer containing a number of files

(ii) Fastening—the files contain hollow tubes in which letters are inserted by means of punched holes



and they are held in their place by steel staples, the prongs of which fit into the hollow tubes

(iii) Arrangement—The letters together with their replies are arranged in alphabetical order between stiff sheets of loose paper on the projected ends of which an alphabet is marked. Thus it contains its own index. Letters received from persons, for instance whose names begin with letter 'k' are fastened into the file above the index sheet bearing this particular letter (k)

(iv) Transfer cases—When the file becomes full, its contents are removed undisturbed to transfer or binding cases which have the same capacity as the file

### *Vertical file—its features —*

1 Cabinet divided into a number of drawers:—the drawers are so deep that the letters may be placed in an upright position as opposed to flat file where letters are placed horizontally. The cabinet has locking device so that the papers may be kept secret and undisturbed

2 Folders —a folder is made of stout manila paper with the back edge projecting above the front one. On projector is written the number or name or subject according to the requirements of a business house. One customer is allotted a folder in which all the letters received and copies of those sent out are arranged date wise. Between these folders, there are also Guide Cards with projectors upon which letters of alphabet or numbers are given. These cards facilitate reference

3 Arrangement of folders —folders may be arranged in either of the following ways,—

(i) Alphabetical system—under this method folders are arranged according to dictionary order

(ii) Numerical arrangement—under this system, each customer is given a number and the folders are arranged in rotation. Guide cards are placed at the

equal intervals as 10 20 30, 40 and so on to make referencing easy. This arrangement is supplemented by card indexing, through which the number of the customer can be found out and files can be traced.

(iii) **Geographical arrangement**—under it the folders are arranged on the basis of provinces and towns.

(iv) **Subject wise arrangement**—this method is generally adopted when subject is of primary importance. All the letters documents and other papers relating to a particular subject are put in the same file bearing the name of the subject.

4 **Absent Guides**—When any folder is removed a card termed as Absent Guide is placed in its place. This card contains in a tabular form the particulars of the correspondence such as the name of the transferee date etc. When the folder is returned it is substituted for this Absent guide.

5 **Transfer cases**—When a folder is full, its contents are removed to transfer cases which are labelled. Thus the letters can be reserved for a long time for future reference.

**Circumstances preferring the one to the other:—**

Flat file is cheap and can be used with advantage in a small office as it requires small space and its capacity is limited. But in a large office which handles thousands of letters flat file would not be suitable and vertical filing would be preferable. Besides under Horizontal filing the contents are held in one place by a fastening this provides an advantage where the orders of papers is not to change. If the fastening of the papers at one place is needed horizontal file would be preferred as in vertical filing there is no fastening device.

**Q 105** Describe two different methods of filing correspondence and state the nature of the correspondence for which you consider each method particularly suitable.

(1934 R B 1937 R B)

Ans Refer to the answer to question No 104

Q 106 Describe the form of Card index and name the important uses to which a card index can be put Explain its advantages over other kinds of indexes (1939 U P)

Ans Form of Card Index—

- (i) A drawer—Cards are arranged in a drawer which is big enough to hold the Cards and a rod to check the disturbances of the Cards passes through them
- (ii) Name Cards—These Cards are 5"×3" in size A customer is allotted one card on which his name, number address, Ledger folio etc are written, In the drawer these cards are arranged alphabetically
- (iii) Guide Cards—These are cards made of stiff papers with projections that bear the letter of the alphabet These guide cards are arranged in alphabetical order The name cards with the same initial letters behind their respective guide cards are also arranged in the dictionary order

Uses of Card index —

Beside the use which it serves in connection with the filing system Card index serves the following purposes

- (i) It serves as an index to the account in the Ledger folio on the Card
- (ii) It may serve the purpose of an index of customers showing name address, buyer's name, credit terms travellers who call, orders given etc
- (iii) It may serve as an index to all quotations given, so that comparisons may be made at a moment's notice when fresh quotations are being prepared
- (iv) It may serve as an index to employees giving full details such as name, address, age, date of appointment salary or wages etc,

- (v) It may also serve as an index of stocks and stores showing all additions and removals. This index can be so arranged that no stock books are required.
- (vi) It may be used in connection with 'follow-up-system'. A note of an enquiry received from the particular correspondent may be made upon his card and in case an order is not received as a result of the quotation supplied, further letters may be addressed with this end in view.
- (vii) It may record the details in respect of hire-purchase system.
- (viii) A record of the financial position of a correspondent may also be maintained on his card.
- (ix) Cards may also be used in connection with the reference to library books price lists etc.

#### Advantages of Card index —

- (i) Card index is adaptable to the needs of a business house. It can be expanded or contracted as desired. Thus there is sufficient elasticity in card index.
- (ii) New cards can be easily inserted at their proper places without disturbing the alphabetical order.
- (iii) 'Dead Cards' or the cards out of use can be easily removed to an 'out of date' drawer and only 'live cards' need be handled.
- (iv) It is economical as the re-writing of a new index book from time to time is dispensed with.
- (v) It is very convenient to handle and makes referencing easy.
- (vi) This is great economy of time and labour because one card serves many purposes.
- (vii) Under Book Index System blank spaces are to be left for new entries but under this system no blank cards are to be handled.

**Q 107** Explain card indexing and give its advantages (1935 U P)

**Ans** Please refer to question No 106

**Q 108** Describe the Principal duplicating appliances generally in use in an office (1936 U P)

**Ans** There are three chief duplicating appliances

- (1) Composition Duplicator or gelatine process
- (2) Stencil Duplicator both Rotary and Flat
- (3) Type setting Duplicator

**Composition Duplicator —**

One of the first copying devices to be introduced was the gelatine copier or the composition duplicator. It consists of a shallow tray gelatine and a bottle of hectograph ink. The matter to be copied is written on a glazed paper with hectograph ink. Gelatine is liquified by placing it in a tin and then putting it in a pan of boiling water. Then this liquid gelatine is poured in the tray and formed in an even surface. The matter to be copied is placed facing downward on the gelatine surface and pressed by means of a roller. By applying the pressure the ink would be transferred to the gelatine. Then sheets of paper are placed on the gelatine surface and with the aid of pressure facsimile copies can be obtained on these sheets of paper. In this way about fifty copies can be obtained by one negative.

When the required number of copies have been obtained the impressions can be removed by washing the negative with a sponge and warm water.

This method is suitable for drawing diagrams, maps and sketches. However this method is rather clumsy and the copies are not always clear and only a limited number of copies can be taken.

**2 Stencil Method —**

This method is also known as the Mimeograph method. The essential feature of this duplicator is

the stencil A stencil is a waxed or composition sheet upon which is typed or traced the matter to be duplicated

If the stencil is to be made by a type writer the ribbon is removed and the type faces thoroughly cleaned so that they will cut cleanly through the wax

While if the stencil is to be made by hand a pen known as stylus is needed The wax sheet is spread over a hard surface and the matter is written by the steel pen viz stylus The stylus cuts through and expels the wax so that when the ink is applied to the surface it passes through the perforations made by the pen and reproduces an exact copy of the original matter

The stencil Duplicator may be either of the flat or rotary type

### Flat Duplicator

The stencil having been cut either with hand or on the type writer is then stretched on the hinged framed covered with a protecting silk sheet This frame can be pressed down on to the printing bed on which the paper is placed and when it is released a spring lifts it into its position In the right hand compartment of the flat machine there is a slate and a tube of ink When the document is ready for printing a little of the ink is pressed out on the slate and rolled about until it is evenly distributed over the whole surface Then a sheet of paper is placed on the printing bed the stencil frame is pressed down on to it and the ink roller is rolled quickly but steadily from bottom to top The ink is thus pressed through the stencil and forms a copy on the sheet inserted Then the stencil holder is released and springs back into its position This process is repeated as many times as are necessary to obtain the required number of copies

The whole operation is quite simple but rather slow and copies from 500 to 1000 can be obtained by this process

### Rotary Duplicator —

This method is an advance on the Flat Duplicator. There are several makes of the Rotary Duplicator but most important among them are the Gestetner, Roneo and Ellams

All the above machines work on the same principle. The stencil is prepared in the way as described above. This stencil is stretched on a round drum from outside and the ink is fed automatically from inside by means of an inking roller. By turning the handle at the side, the cylinder makes two or three revolutions and the paper is picked up and brought between printing roller and the cylinder. As the cylinder rotates it carries the paper with it and at the same time imprints the copy upon it. After passing through the machine, the printed paper drops into a receiving tray and the machine picks up another sheet to repeat the process. The more modern machines are fitted with cyclometer which records the number of copies taken out.

This machine can also be worked by electricity and if the stencil is hard wearing about 10 000 copies can be obtained at a speed of one hundred copies a minute.

### Type setting duplicator —

Though stencil has the advantage of being cheap and easy to manage, yet its use is limited to cases where only a few thousand copies are required and the appearance of the copies is not the chief consideration as the copies made by stencil do not exactly look like letters produced on the type writer. This difficulty is removed by a type setting duplicator by which most of the work done by a printer can be eliminated.

Under type setting duplicator the matter is composed by metal types in a grooved case known as a 'Form'. This 'Form' is set in a flexible cylinder in the machine.

The type setting machine can be operated electrically when a speed of 6000 copies an hour can be obtained or by hand when the speed is reduced to 3000 copies an hour. As the cylinder revolves which maintains correct pressure. The ink may be fed either from a roller direct on to the type face or from a wide ribbon similar to a type writer ribbon placed between the type face and the paper. If the ribbon is used for inking, copies obtained are of the appearance of an actually type written letter.

The great advantage of this method is that letters to the extent of 40 000 and 50 000, each having the appearance of a personal communication can be obtained. This machine can also print diagrams and illustrations by the use of 'blocks' and 'electros'.

A particular advantage of the latest model Multi-graph machine is that it will not only duplicate letters and insert therein at the same time the name and address of the addressee the date salutation and signature, but also address the envelopes in one operation—and this at a speed of 1000 copies per hour. Thus the apparatus is in effect a combined duplicating and addressing machine.

**Q 109** Give a brief description of any modern apparatus used for duplicating letters etc (1938 R B)

**Ans** Description of any method given in question No. 108, may be given.

**Q 110** Describe the working of Rotary Duplicator and give its advantages and disadvantages (1938 U P)

**Ans** Working Rotary Duplicator :—

Refer to the answer to question No 108



**Advantages of Rotary Duplicator —**

(1) As compared to a type setting duplicator, a rotary duplicator is less expensive and thus can be installed in an average business house. At the same time the work obtained on a Rotary Duplicator is quicker as compared to type setting duplicator where much more time is needed in composing the matter and then redistributing the types in their proper places.

(2) Besides, it possesses all other advantages of making copies by means of machines installed in the business office. These advantages may be summarized as follows:—

- (i) All the inconveniences of dealing with the press are avoided.
- (ii) It ensures quick and speedy action as the work can be done at any time.
- (iii) Secrecy is maintained as no outsider can know the matter before it is despatched.

**Disadvantages —**

(1) The greatest disadvantage is the limited number of copies and thus unsuitable for an office where much larger number of copies are required.

(2) It does not give the same appearance of a type-written letter and the matter may lose much of its personal tinge and thus may not be given the proper attention.

(3) The initial cost is very high, and thus not suitable for offices where the amount of work is not considerable.

**Q 111.** Describe briefly the working of a Rotary multiplier. What advantages does this method possess over other kinds of duplicator (1937 R. B.)

**Ans** Working of Rotary Multiplier—

Refer to the answer to question No 108.

**Advantages** —Refer to the answer to question 110.

**Q 112** Describe two modern ways of obtaining multiple copies of correspondence and explain the circumstances under which each is suitable (1940 U P)

**Ans** Two methods of obtaining multiple copies

- (1) Rotary multiplier
- (2) Type setting Duplicator

For description of these two methods please refer to the answer to question No 108

Circumstances under which each is suitable —

Stencil method based on Rotary multiplier is preferable over composition duplicators because in the latter the result is not generally satisfactory and often appearance is clumsy. Rotary duplicator must be purchased in offices which can afford its cost. But for a good number of offices due to heavy cost type setting duplicator as it works very favourably with the work of a printer is preferable in business which have to pay a very heavy bill of the printer. In it each copy has the appearance of having been specially typed and thus is preferable in those matters where appearance of the letter is main consideration as it gives a personal tone to the letter. Besides this method is also preferable where copies of diagrams and illustrations are to be obtained.

**Q 113** Mention two methods of multiplying Commercial letters, giving special advantages of each (1940 R B)

**Ans** Rotary multiplier and type-setting duplicators can be mentioned. For their description please refer to question No 108

**Special Advantages of Rotary Multiplier —**

- (i) It is cheap and easy to manage
- (ii) About 1000 copies can be obtained from one stencil and thus it is suitable for an average office.

- (iii) As compared to composition duplicator it also economises time as copies can be obtained at an average speed of 50 or 60 copies per minute

**Advantages of type-setting duplicator —**

- (i) Its capacity is enormous and about 50,000 or 60 000 copies can be obtained with a speed of 2 000 or 3 000 copies per hour and thus suitable for those offices where there is a huge amount of work to handle and where the question of cost is not at all important
- (ii) Work of an excellent quality can be obtained. It compares very favourably with the work of the printer and each copy has the impression of being specially typed
- (iii) Copies of diagrams and illustrations can also be obtained by the use of blocks and electros
- (iv) Latest type of machine is a combined apparatus of duplicating and addressing machine. As it will not only duplicate letters but also address the envelopes in one operation

**Q 114** State clearly how you will proceed to make 100 copies in type-script of a circular by means of a stencil machine (1939 R.B.)

**Ans** Please refer to the answer to Q No 108

**Q 115** What method of multiplying copies will you adopt when you require (i) 50 copies (ii) 120 copies (iii) 800 copies. Briefly explain the methods (1936 R B)

**Ans** (i) For 50 copies Composition Duplicator may be adopted — See question No 108

(ii) For 120 copies Composition duplicator replaced by recent adaptation of the same known as Fascino duplicator may be recommended

Under this method the duplicating composition is supplied on rolls of a specially prepared substance mounted on a non tearable fibre backing. The letters

to be copied are written with Facisno ink and the matter to be reproduced is transferred to the duplicating substance as in the old process. The carriage of the duplicator is moved backward and forward by which blank sheets of paper are automatically placed on the duplicating surface, pressed and removed.

(iii) For 800 copies stencil method may be adopted, see question No 108

**Q 116.** What is the difference between a Code Telegram and Cypher Telegram and mention two important codes. (1939 R B)

**Ans** A foreign telegram may be written either in plain language or in Code language or cypher

**Code Language :—**

As very high rates are charged for words transmitted through Cables, Codes are devised to effect economy. The codes are composed of real words or mere groups of letters which are pronounceable and stand for phrases or sentences commonly used in mercantile world. Thus any telegram written in code language is termed as Code Telegram. There are several public Code used e.g. A B C Code 5th edition, Bentley's 5th edition and so on. The code words are mostly derived from the principal European languages—English, French, German, Portuguese, Spanish, Italian, Dutch and Latin. Each word consists of not more than 10 characters and is preceded by consecutive numbers.

Suppose we want to send the following message to England —

"The business is not worth the expense, ex'tra expense of the night work to be paid by the person ordering the same"

Referring to A B C code 5th edition we find two words viz ELEGENDI ELTHEE (with numbers 17455 and 17559 respectively)

Now the Coded telegram will contain these two words for the whole body of the telegram. This telegram by the help of ABC code will be decoded into an ordinary language

### Cypher Telegram —

A cypher telegram is one which consists of groups of figures or of letters having a secret meaning or not fulfilling conditions applicable to plain language or code. Such telegrams are used where perfect secrecy is desired as messages sent in code languages are easily decipherable with the help of a code but when they are sent in cypher it is practically impossible for any one, not in possession of the key word to read the message. A cypher message must be wholly in figures or wholly in letters.

The above message can be translated into a cypher message with the help of the following key word —

BANKRUPTCY									
1	2	3	4	5	6	7	8	9	0

The message in code language as given above would be

Elegendi	Elthee
17455	17459

For each of the figures in these groups will be substituted a letter from the key word —

BPKRR	BPKRC
-------	-------

These two words will now be telegraphed to the correspondent. On receipt of the telegram the correspondent will reverse the process. First he will substitute the figures for these letters by the help of the key word and through the numbers obtained will read the message with the help of the code.

Q 117 What is the difference between a Coded telegram and a Cipher telegram. Illustrate your answer by means of examples (1938 U P)

Ans Please refer to the answer to Q No 116

**Q 118** Why were P.O Savings Banks introduced in India? Give the main regulations governing deposits in the P. O Saving Bank. (1941 U P.)

How can Post Office Savings Bank a/c be opened and operated (1935 U P)

**Ans** Causes which led to the opening of Post Office Savings Bank in India :—

Indian people being most illiterate it is not possible for them to understand the rules and practices of various banks. Besides modern banks do not provide facilities for the deposit of a small amount of money, which comprise the savings of a majority of the people in India. Thus banks were not able to meet the needs of poor persons and also of persons of modest means. Thus before the establishment of Post Office Savings Bank, the money which could have been saved otherwise and might have been used productively was wasted being used in unnecessary things. This led to the opening of the Post Office Savings Banks in which small savings of Indian people can be deposited. Thus post office savings banks were opened with a view to provide a ready means for the deposit of savings and so to encourage thrift. Savings Banks are not to be used for the purpose of keeping a current account and the Deputy Accountant General Post and Telegraph is empowered to close accounts, if he has reason to believe that the accounts are being used for the purpose for which the Savings Banks are not intended.

**Regulations governing the deposits :—**

Any person can open account in a Post Office Savings Bank but no person shall have more than one account open in his own name. A person can open account (a) on his own behalf (b) on behalf of any minor relative (c) on behalf of any ward for whom he is the guardian (d) on behalf of a lunatic of whom he is the legally appointed guardian. Minors and women, whether married or single can also

open accounts in their own names. Money cannot be deposited in the name of two or more persons jointly, though account can be opened in the name of a known firm.

Amount —

(1) No account shall be opened with a deposit of less than two rupees.

(2) No subsequent deposit shall be less than one rupee. Thus the smallest sum that can be deposited or withdrawn at any one time is Re 1/- and not annas four (Post and Telegraph Guide September 1941).

(3) No deposit whether initial or subsequent shall include a fraction of a rupee.

(4) The total amount at call which may be deposited in any one official year—from the 1st April to the 31st March inclusive—after deducting the amounts withdrawn during the year may not exceed Rs 750 i.e. no deposit shall be received which has the effect of raising the depositor's balance exclusive of interest credited in the current year to a figure more than Rs 750 in excess of the balance at his credit at call on the 1st April last.

(5) The amount at call which a depositor, adult or minor, may have at any time exclusive of interest for the current year is Rs 5000.

How to open an account:—

Any person wishing to open account should apply to the nearest post office having a Savings Bank Department. The intending depositor has to sign a declaration that he has read and accepted the post office Savings Bank rules and that he has no other account opened by him in his own name at any post office. If the depositor is illiterate, he has to affix his mark or seal to the declaration which must be attested by a witness.

Women may open accounts in their own names through their agents or if they are married through

their husband or agent. The agent or husband will be required to produce a letter of authority in the prescribed form and to sign the declaration that the depositor understands and accepts the rules.

When the declaration is presented duly signed with the amount of the first deposit, the amount will be entered in the Pass Book, which will be supplied to the depositor. The depositor will be required to sign a receipt for it. If the account is opened at branch post office, the pass book for the deposit will have to be obtained from the head office. A preliminary receipt for the amount of the first deposit will therefore, be given to the depositor. When the pass book is received from the head office, it will be handed over to the depositor in exchange of the preliminary receipt.

#### Withdrawals:—

A depositor may withdraw money from his *account only once a week*. By the term "*week*" is meant the period from Monday to Saturday, both days inclusive. A depositor may therefore withdraw money from his account on Saturday and again on the following Monday.

When the amount is to be withdrawn, the depositor must present his pass book either himself or through his agent together with a withdrawals form duly filled and signed by him. If the money is withdrawn through an agent or messenger his name and signature should be entered in the withdrawal form by the depositor.

A Pardanashin lady can withdraw money through his authorized agent who must state that the depositor is alive and sane at the time of withdrawal. The application for withdrawal from a minor's account must bear a certificate from the guardian that the amount sought to be withdrawn is required for the use of the minor. An illiterate person must go personally to the post office and affix his mark on the withdrawal form which must be attested by a witness.



If the withdrawal form is correctly filled in, amount will be paid and entry will be made by the post master who will also put down his initials.

Then no sum below Re 1/- (one) or any fraction thereof can be withdrawn.

**Transfer of Accounts :—**

A depositor may have his account transferred, free of charge to any post office having a Savings Bank department provided that the account shall have been in existence for at least three months from the date on which it was opened or reopened or transfer. He should send his pass book with a written application for transfer.

**Closing an Account —**

When a depositor wishes to close his account, he must present his pass book with a form of application for withdrawal of the amount shown at his credit in the pass book. The amount of interest due on his account upto the end of calendar month preceding the date of presentation will be entered in the pass book and the final balance struck. The amount will thereafter be paid to the depositor and his receipt taken on the warrant of payment. The pass book will then be retained in the post office.